IAC LIMITED 52nd ANNUAL REPORT 1976

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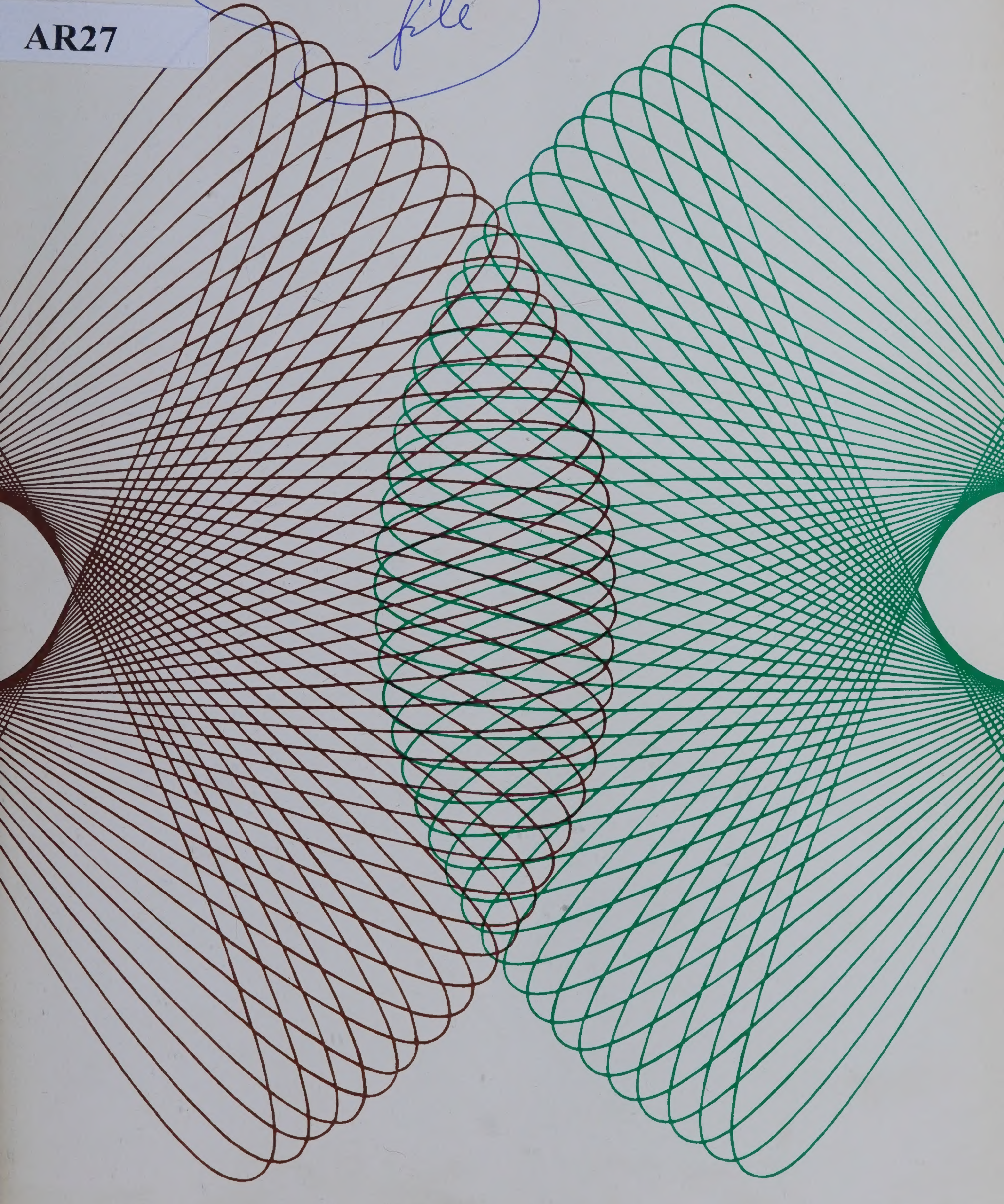


52nd ANNUAL REPORT 1976

For the year ended December 31, 1976

IAC Limited
Incorporated under the laws of Canada
February 7, 1925
Head Office, 45 St. Clair Avenue West,
Toronto, Ontario M4V 2Y2

Si vous désirez recevoir un exemplaire en français du rapport annuel de IAC, veuillez vous adresser au secrétaire, IAC Limitée, 45 ouest, avenue St. Clair, Toronto, Ontario M4V 2Y2

Contents

IAC Limited

Interim report

Six months ended June 30, 1976

IAC Limited

Head Office
45 St. Clair Ave. W., Toronto, Ontario M4V 2Y2

To the Shareholders:

Earnings applicable to common shares increased during the first six months to a level of $15.4 million, which compares to $14.9 million for the same period a year earlier. This resulted in earnings per common share of $1.13, as compared to $1.10 in the first half of 1975.

The volume of new business has been satisfactory and it is gratifying to continue to report that the various portfolios of receivables are in good condition. While qualified by the level of general economic activity, the outlook in most areas of your Company's business appears to be encouraging for the latter half of the year.

It is impossible to predict the trend of interest rates, but it is anticipated that the results for the full year will be satisfactory.

However, the Anti-Inflation Board guidelines applicable to financial intermediaries have not been issued in final form, and as a result, there is continuing uncertainty as to their impact on the Company's operations.

D. W. MALONEY
President

August 6, 1976

Consolidated Statement of Earnings

SIX MONTHS ENDED JUNE 30, 1976

(Subject to audit)

Gross income

Expenditure

Cost of borrowed money —

Short-term debt

Long-term debt

Casualty insurance claims incurred

General and administrative

Provision for income taxes

Current

Deferred

Parent company's portion of increase in unassigned surplus of life assurance subsidiary

Share of earnings of mortgage insurance company

Earnings

IAC Limited
and subsidiaries

1976 $000's		1975 $000's	
	135,569		119,718
35,131		24,858	
32,540		31,331	
67,671		56,189	
6,213		5,219	
31,917	105,801	28,461	89,869
	29,768		29,849
3,095		8,170	
11,378	14,473	6,790	14,960
	15,295		14,889
	302		284
	259		181
	15,856		15,354

Financial and Insurance Services

IAC Limited
Purchase Credit Plans • Inventory Financing • Equipment Financing Lease Financing • Fleet Financing Portfolio Discounting • Capital Assets Leasing • Commercial Mortgages

Niagara Finance Company Limited
Consumer Loans and Financing

Niagara Realty of Canada Limited
Niagara Realty Limited
First and Second Mortgage Loans
Mortgage Discounting

The Sovereign General Insurance Company
Automobile, Fire, Comprehensive Home and Personal Liability Insurance

The Sovereign Life Assurance Company of Canada
Life, Endowment, Term, Business Insurance • Annuities, Registered Retirement Plans

The Sovereign Mortgage Insurance Company
(an affiliated company)
Mortgage Loan Insurance

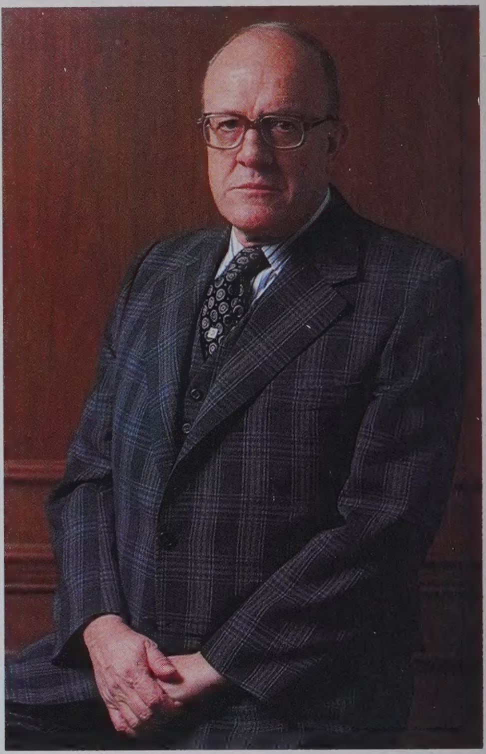
Printed in Canada

HIGHLIGHTS FOR THE YEAR	1976	1975	Per cent Increase (Decrease)
Gross income	**$ 269,226,000**	$ 243,150,000	10.7
Proportion taken up by			
—Cost of borrowed money	**50.2%**	47.0%	
—General and administrative expenses	**23.1%**	24.3%	
Earnings applicable to common shares	**$ 31,341,000**	$ 29,462,000	6.4
Dividends paid on common shares	**$ 15,440,000**	$ 14,737,000	4.8
Proportion of earnings	**49.3%**	50.0%	
Earnings per share	**$2.31**	$2.18	
Dividends paid per share	**$1.14**	$1.09	4.6
Per cent return on average common equity	**14.99%**	15.24%	

AT THE YEAR END

Total consolidated assets	**$2,409,966,000**	$2,390,847,000	0.8
Total receivables	**$2,301,761,000**	$2,294,945,000	0.3
Main categories:			
Sales financing—wholesale	**$ 275,209,000**	$ 286,167,000	(3.8)
—retail	**764,774,000**	771,584,000	(0.9)
Consumer loans	**203,709,000**	216,450,000	(5.9)
Residential mortgages	**248,880,000**	202,247,000	23.1
Commercial loans and mortgages	**63,385,000**	63,573,000	(0.3)
Leasing	**710,217,000**	724,840,000	(2.0)
Total debt	**$1,545,947,000**	$1,540,203,000	0.4
Short-term debt	**621,162,000**	705,864,000	(12.0)
Other term debt	**924,785,000**	834,339,000	10.8
Shareholders' equity	**$ 233,761,000**	$ 218,822,000	6.8
Number of common shareholders	**11,307**	11,435	(1.1)
—domiciled in Canada	**95.9%**	95.8%	
Number of common shares outstanding	**13,544,033**	13,541,883	0.0
—owned in Canada	**96.5%**	96.3%	
Book value per common share	**$16.03**	$14.84	8.0

K.H. MacDonald,
Chairman of the Board



J.S. Land,
Vice-Chairman of the Board

Earnings applicable to common shares increased for the thirteenth consecutive year reaching $31.3 million as against $29.5 million in 1975. On a per share basis, the increase was 13 cents to $2.31 compared to $2.18 in the previous year. However, it should be pointed out that an extraordinary item of $1.3 million, resulting from the sale of your Company's subsidiary in the United Kingdom, represented a gain of 10 cents per share. This subsidiary was sold because its activities do not fit into the overall plans for your Company.

The dividend paid per common share was $1.14 against $1.09 in the previous year, and accordingly 1976 was the fortieth consecutive year in which dividends were earned and paid, and in each of the past twenty-one years, the payout exceeded that of the preceding year.

Average funds employed during the year were higher than in 1975 which resulted in an increase of $26.1 million in gross income, a gain of 10.7% over the previous year. However, the average rate on borrowed funds was 8.9%, as compared to 8.3% in 1975. As a result of this and increased usage, money costs were up $21.0 million or 18.4%. General and administrative expenses increased by $3.1 million, but as a percentage of gross income declined to 23.1% from 24.3% in the previous year.

Since receivables represent 95% of the Company's assets, their sound condition is important to shareholders. In the year 1976, credit losses as a percentage of average receivables were .47%, which relates well to other financial institutions, and is in line with the average loss experience for the past 10 years.

The two insurance subsidiaries, The Sovereign Life Assurance Company of Canada and The Sovereign General Insurance Company, have now successfully combined their operations and each made a meaningful contribution to the Company's earnings.

The financial markets continued to reflect confidence in your Company by the supplying of $175 million in long-term funds during the year. The parent company placed secured notes in the amount of U.S. $50 million with institutional investors in the United States, and secured notes in the amount of $25 million in Canadian funds through a public offering in the European market. This was followed by the public placement of secured notes in the amount of $100 million in Canadian funds in the Canadian market.

Your Directors wish to record the following changes made by the Board during 1976.

On April 22, 1976, subsequent to the Annual General Meeting of Shareholders,

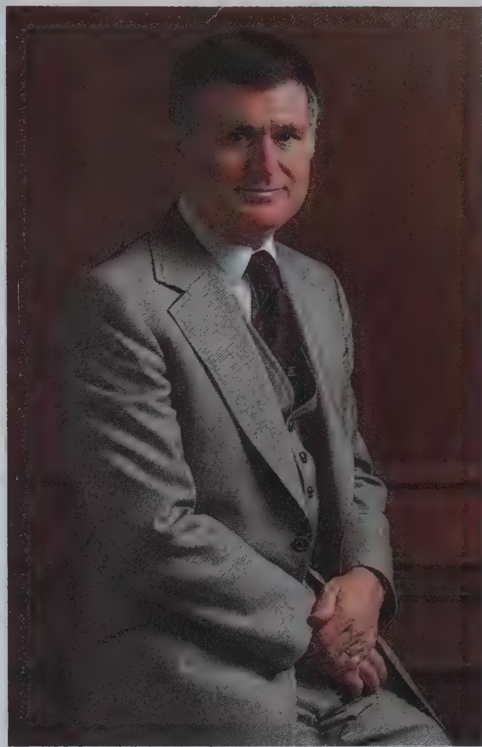
J. S. Land was elected Vice-Chairman of the Board

D. W. Maloney was elected President

S. F. Melloy was elected Executive Vice-President.

During the year, because of the Company's announced intention to become a chartered bank, the following Directors who held directorships with other deposit-taking institutions tendered their resignations:

D.W. Maloney,
President



S.F. Melloy,
Executive Vice-President

Frank M. Covert, Q.C.
John S. Dewar
Conrad F. Harrington
Louis A. Lapointe, Q.C.
Charles I. Rathgeb
Renault S. St. Laurent, Q.C.
James C. Thackray
Dennis K. Yorath

They served your Company with distinction, and their individual contributions were deeply appreciated by their colleagues. Their resignations were accepted with regret.

The following were elected to the Board:
Stanley D. Clarke
George L. Crawford, Q.C.
Stanley F. Melloy
L. Edmond Ricard
Struan Robertson
C. Harry Rosier
Adam H. Zimmerman, F.C.A.

The following executive appointments made by the Board of Directors were announced during 1976:
B.F. London, Senior Vice-President
L.R. Woodall, Senior Vice-President
W.S. Smuk, Vice-President
K.E. Woodall, Vice-President

Bill S-30 proposing the conversion of the Company to a chartered bank was left on the order paper of the last Parliament. However, a new Bill, C-1001, is presently before the House of Commons. At the date of this report, it is awaiting second reading. Meanwhile, the Company is continuing its plans for conversion to a chartered bank with the formation of appropriate management structures for the extension of a broader range of financial services.

The results recorded in this Annual Report speak well for the manner in which the men and women of the IAC companies across Canada approached their responsibilities. Your Directors wish to record their appreciation and warm thanks for their efforts.

The current outlook for the Canadian economy is considered to be one of uncertainty, particularly in the area of business capital spending. However, your Directors feel that some continued progress in the fields in which it participates can be expected of your Company. Moreover, the recent decline in the cost of short-term borrowings, if it persists, will be very constructive from an earnings viewpoint. Your Directors are of the opinion that the results for the year 1977 will once again be satisfactory.

On behalf of the Board,

Chairman

President

February 23, 1977

GENERAL COMMENTARY

Chart 1 Sources of Gross Income (before provision for doubtful receivables)

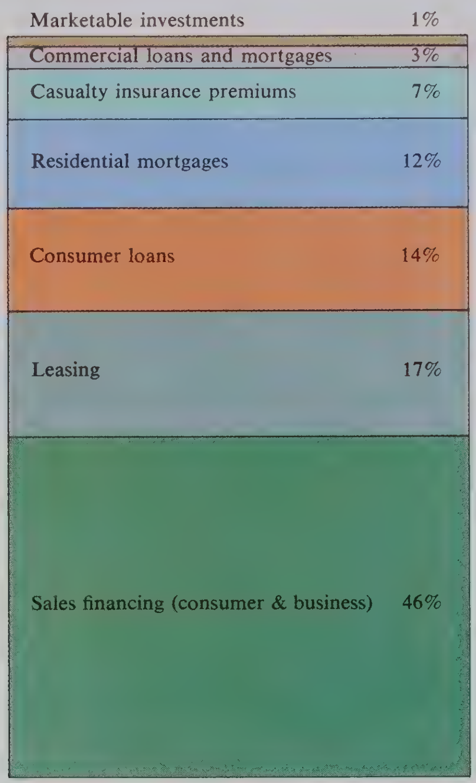


Chart 2 Composition of Gross Income Distribution

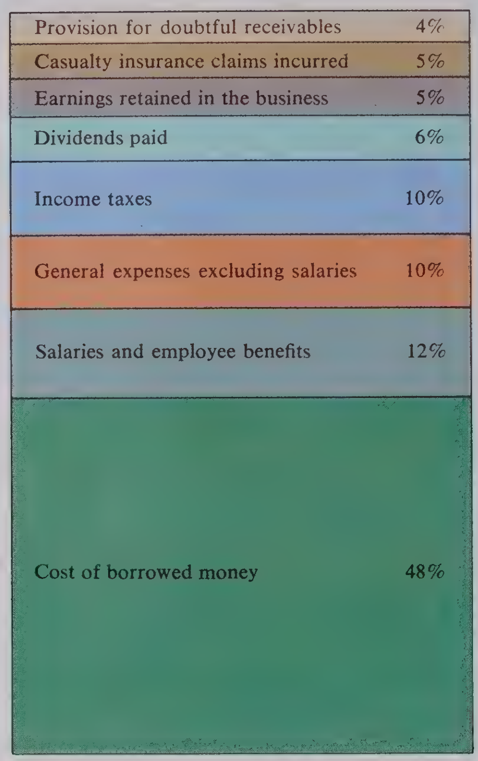
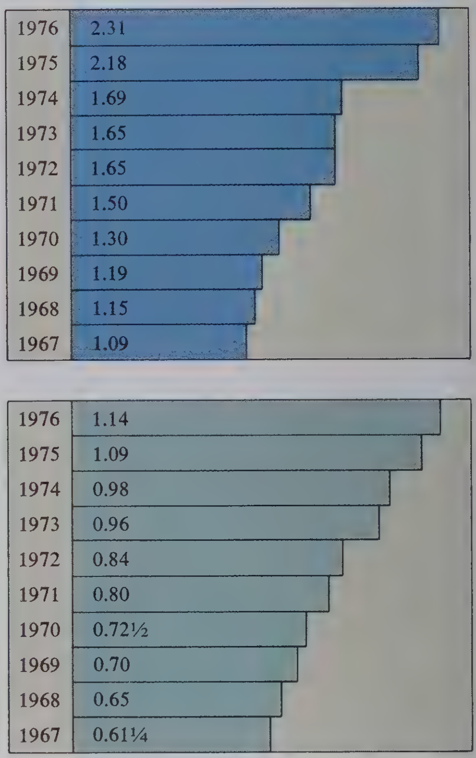


Chart 3
Earnings per share $
Dividends per share $



Gross Income
Total gross income, including casualty insurance premiums and investment income, was up $26.1 million or 10.7%. Average receivables outstanding were higher than in the previous year by 9.6% resulting in gross income from receivables increasing 9.4%.

In recognition of continuing uncertainties in the economy, the provision for doubtful receivables was increased by $1 million.

Chart 1 Sources of Gross Income (before provision for doubtful receivables)
Continuing change in the overall mix of receivables is altering the relative importance of various activities in terms of gross income produced. Income from commercial loans, leasing and mortgages, on a proportionate basis, is growing faster than that produced by sales financing and consumer loans.

Chart 2 Composition of Gross Income Distribution
The most noteworthy change in the distribution of gross income was the increased proportion allocated to the cost of borrowed money. The average cost of the latter rose from 8.3% in 1975 to 8.9%. Also, the amount used was somewhat larger.

Chart 3 Earnings per share $ Dividends per share $
The increase of 13¢ per share in earnings, while less than the increase in the previous year, compared favourably with the average annual increase over the last ten years.

The payout by way of dividends exceeded that of the previous year as has been the case in each of the past twenty-one years. The amount paid out represented 49.3% of available earnings which was very close to the average percentage over the last decade.

Chart 4
Shareholders' Equity $000's
Book Value per Common Share $

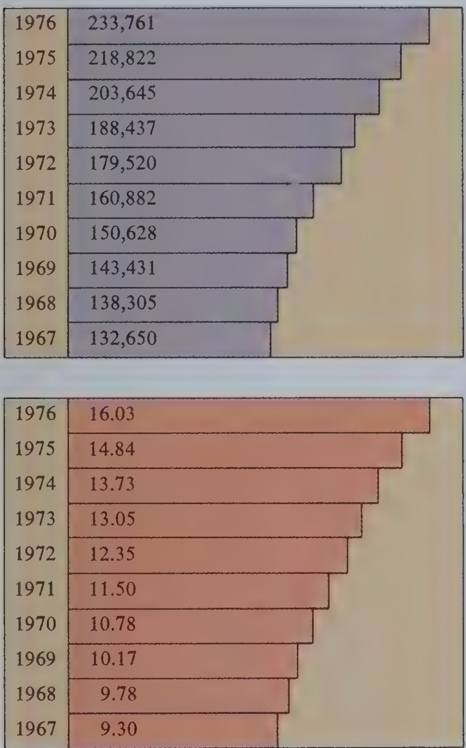


Chart 5 Receivables and their Composition
Residential Mortgages
Consumer Purchase Credit
Consumer Loans
Business Financing

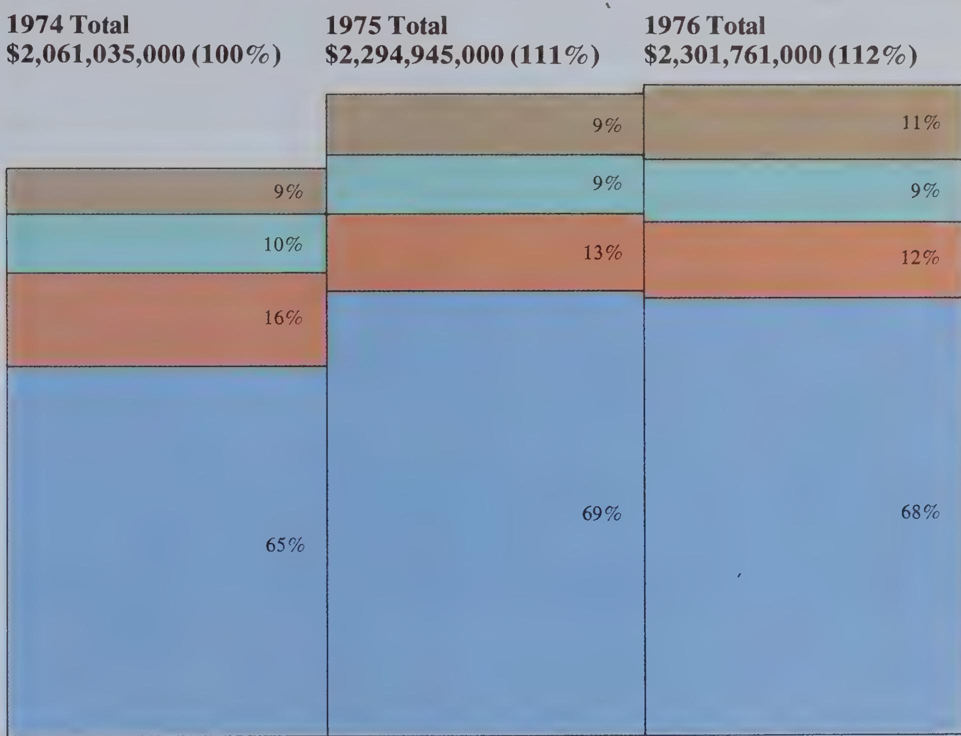


Chart 4 Shareholders' Equity $000's Book Value per Common Share $
Due to the redemption of preferred shares under the Preferred Share Purchase Fund, the total of capital stock outstanding declined somewhat, but an increase of over $16 million in retained earnings resulted in a 7% increase in shareholders' equity. The return on common equity of 14.99% in 1976 was at the second highest level in the last ten years.

Chart 5 Receivables and their Composition
Uncertainties in the economy during 1976, along with unusually high unemployment, limited growth in the overall portfolio of receivables. Demand for residential mortgages, however, continued buoyant. As a consequence, such mortgages now represent 11% of receivables, with consumer purchase credit and business financing accounting for slightly decreased proportions of the total.

Summary
While considerable uncertainty still exists as to the outlook for business in Canada in 1977, your Company remains moderately optimistic. New and improved plans for financing, which have already been introduced, should be helpful in obtaining a sound market share. The current trend towards lower cost of borrowed funds, if it persists, will be most helpful. It is widely anticipated that the Government will act to stimulate the economy which should be constructive in strengthening demand for a number of your Company's services. It is well positioned to capitalize on opportunities which the year 1977 may offer.

Atlantic Division headquarters are now located in this meticulously-restored building at 1684 Barrington Street in downtown Halifax. Division management occupies the third and fourth floors, while integrated main branch operations occupy the first and second floors. The interior view shows one of the building's original walls, incorporating half a dozen kinds of brick and stone materials, some of which were first brought to Halifax as ballast in 19th century sailing ships returning from European ports.

In this age of widespread transformations in many aspects of life, we have grown accustomed to seeing things altered for novelty's sake. Such changes are often more apparent than real; they alter the surface of things, but underneath, they remain much the same.

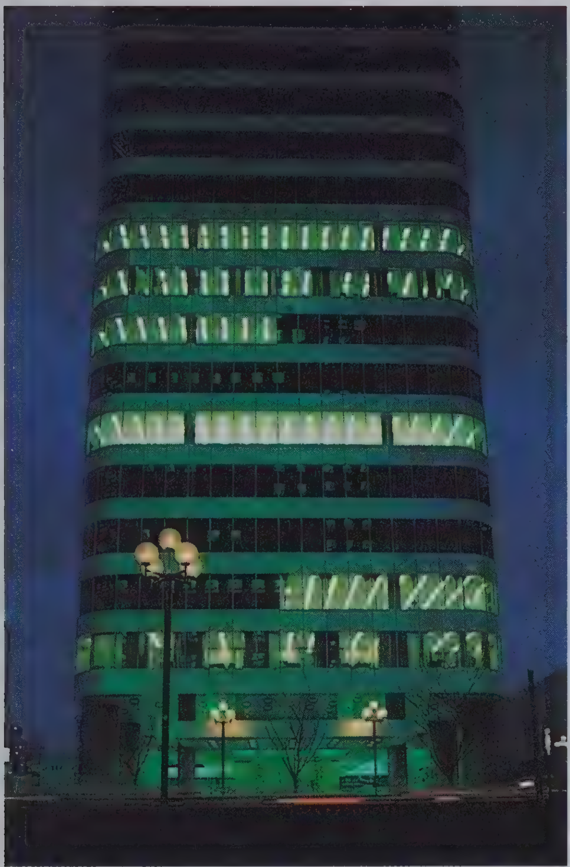
During 1976, precisely the opposite kind of change took place within the IAC companies. On the surface, the companies in the corporate group have retained their legal and financial identities. But internally there has been a fundamental restructuring that will profoundly alter the way these companies will build their collective future in the years to come.

For management purposes, we have called the process integration. It might also have been called rationalization, reorientation, or reorganization. All of these terms at least partially describe the changes that have been made. They all reflect a single, overall strategy: that of drawing together the separate operational entities within the IAC group to form a single, unified organization working towards a common set of objectives.

This step foreshadows the unified management structure that will be required when the present group of companies converts to banking operations. In addition, the unification process will deliver immediate benefits in terms of greater operating efficiency and a significant expansion of growth opportunities for the Company.

A fully integrated head office and division management structure was put into effect as of October, 1976, and the new organization is now running smoothly. It was created along functional lines in order to bring similar or closely related activities together under unified management direction, regardless of the legal entities involved. For example, all mortgage business is now administered by a single management group, even though these investments are carried by several subsidiary companies. The same principle has been applied to the consumer service and business financing portfolios, as well as to the business development function and the provision of all services.

Because these new functional structures anticipate the business that will be done in the banking field, they provide a sound framework for the planning and preparation that must be carried out before the bank can commence operations. The designing and installing of new systems and procedures, the training and development of specialists, the improvement and extension of services, and the acquisition and maintenance of a presence in a broader range of markets are all necessary steps towards the



The Vancouver headquarters of the Western Division are now located on the top floor of this ultra-modern, 16-storey building at 1090 West Georgia Street, in the heart of the city's business district. The structure, which was completed last year, is surrounded by a raised plaza which provides access to the ground floor branch offices. The multi-functional branch premises now house consumer service, business financing and mortgage units, and are fully-equipped for conversion to banking operations.

ultimate objective. Activity in all these areas will increase as the new structure continues to make its influence felt.

Of course, these changes have required personnel at all levels to adapt to new responsibilities. To their credit, they have responded well to this challenge, and have been quick to perceive the greater opportunities for personal growth.

As soon as the integration of head office and divisional offices was completed, the same process was launched at the branch level. Because of the large number of offices involved, over 450 separate administrative units in over 260 locations, the branches are being integrated progressively. One of the objectives at this level is to relocate or improve branch premises to meet the higher standards necessary for future expansion of services. The restructured network will function at a higher level of productivity than formerly, and will be better equipped to market the existing range of services with greater efficiency.

Division headquarters in Halifax and Vancouver have already been relocated in premises which provide quality environments in both cities' financial districts for Division management, as well as appropriate ground floor accommodations for principal branch offices. As the pictures on these pages show, both the buildings selected are of contrasting but equally distinctive characters, and both meet all necessary criteria for the future development of banking operations.

The Halifax building is especially noteworthy; it was erected near the turn of the century, and underwent a complete restoration last year. To preserve the structure's historical integrity, IAC worked closely with the owner/developer in installing interior appointments in solid oak and brickwork consistent with the original design. The result is a building which has already won awards from Heritage Trust of Nova Scotia for developer Robert Stapells (as developer of the year in Nova Scotia) and for the building itself as the best commercial restoration in Atlantic Canada. Mr. Stapells has also been invited to apply for Heritage Canada's national award for commercial restoration.

Throughout 1977, the integration process will continue, and further improvements will be initiated. The result will be a stronger, more responsive and more versatile organization, well prepared to realize the expansion opportunities of the next decade.

(Continued overleaf)

R.E. Campbell, *Senior Vice-President and Senior General Manager*

A.P. Bolin, *Senior Vice-President — Corporate Development*

B.F. London, *Senior Vice-President — Consumer Services*

The IAC group of companies is now operated by a single integrated management organization, incorporating personnel from the former structures of both IAC and Niagara.

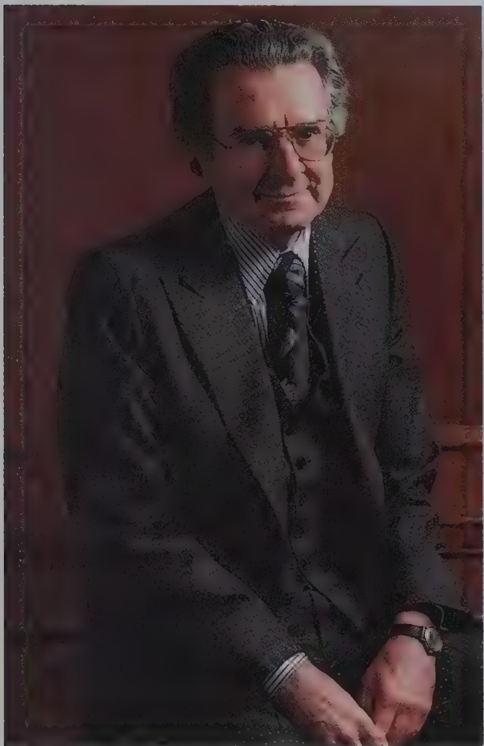
The new organization has four main functional areas, each headed by an officer who reports to Senior General Manager R. E. Campbell. They are A. P. Bolin, Senior Vice-President — Corporate Development, B. F. London, Senior Vice-President — Consumer Services, F. P. Paradis, Senior Vice-President — Business Financing, and L. R. Woodall, Senior Vice-President — Mortgages. Each of these men has overall corporate responsibility for all activities within his functional area throughout the group of companies.

The divisional headquarters in Halifax, Montreal, Toronto and Vancouver have also been restructured along these same lines. Under each Division General Manager, there are Assistant General Managers, responsible for the same functional areas, so that lines of authority within the divisions parallel those of the head office. The result is a management structure which supersedes and erases all former lines of separation within the old structure, right down to branch level.

The Capital Funds Division, because of its specialized functions, remains headquartered in Toronto and has a somewhat different branch network. This reflects the fact that this division's market is concentrated in the major urban centers and its leasing services are more complex in nature than those of the other divisions.

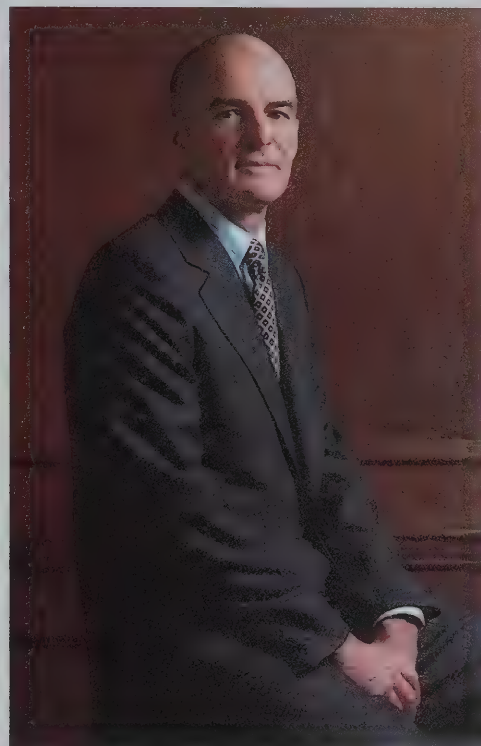
W. R. Livingston, as President of The Sovereign Life Assurance Company of Canada and The Sovereign General Insurance Company, has carried out a similar integration of insurance operations during the past few years. However, since these companies cannot legally form part of the amalgamated operations of the bank when it is created, no attempt is being made to include the Sovereign companies in the continuing corporate unification program.

While the new structure is more centralized at the senior levels than the former organization, care has been taken



F.P. Paradis, *Senior Vice-President — Business Financing*

L.R. Woodall, *Senior Vice-President — Mortgages*



W.R. Livingston, *President Sovereign companies*

to counterbalance this with greater decentralization of authority over day to day operations. IAC has long recognized the importance of personal service relationships in dealing with its clients and customers, and these relationships can only be maintained by a sensitive and responsive organization. Consequently, appropriate latitude for local decision making has been extended to both division and branch management, to enable them to meet clients' needs promptly and efficiently. Preserving the ability to react quickly to changing requirements reinforces the Company's long standing policy of bringing its services to its clients, rather than obliging them to visit branch offices.

Another significant benefit of the new structure at the branch level is that it facilitates offering the full range of available services to all customers. Under the old structure, lines of division between operating groups sometimes impeded this process, resulting in marketing inefficiencies. These have now been eliminated so that all branches have maximum opportunity to both enlarge and deepen their penetration of available markets.

The expansion of career opportunities for all employees within the integrated structure has brought with it an expanded need for staff training and development. To meet this requirement, several major new programs have been introduced during the past year, and several more are under intensive development. Every effort is being made to ensure that all employees, from all parts of the IAC organization, will have equal access to the training necessary to develop their full potential.

Needless to say, the implementation of these programs has placed additional burdens on the Company in terms of operating and administrative expenses. However, all of these expenses have been absorbed on a current basis without adversely affecting the Company's earnings performance. Future financial benefits arising from increased efficiency under the new structure will therefore have a favourable impact.

CONSOLIDATED STATEMENT OF EARNINGS
for the year ended December 31, 1976

	1976 $000's		1975 $000's	
Gross Income (note 2)		**269,226**		243,150
Expenditure				
Cost of borrowed money—				
Short-term debt	**61,889**		50,400	
Other term debt	**73,376**		63,865	
	135,265		114,265	
Casualty insurance claims incurred	**13,032**		11,125	
General and administrative	**62,231**	**210,528**	59,134	184,524
		58,698		58,626
Provision for Income Taxes				
Current	**5,707**		6,175	
Deferred	**23,434**	**29,141**	23,143	29,318
		29,557		29,308
Parent company's portion of increase in unassigned surplus of life assurance subsidiary (note 1 (a))		**851**		798
Share of earnings of mortgage insurance company (note 1 (a))		**512**		344
Earnings before Extraordinary Item		**30,920**		30,450
Extraordinary Item				
Gain on sale of the United Kingdom subsidiary, net of $475,000 deferred income taxes		**1,347**		—
Earnings for the Year		**32,267**		30,450

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Earnings for the year	**32,267**	30,450
Dividends on preferred shares	**926**	988
Earnings Applicable to Common Shares	**31,341**	29,462
Dividends on common shares at $1.14 per share (1975—$1.09)	**15,440**	14,737
Earnings retained in the business	**15,901**	14,725
Gain on preferred shares purchased for cancellation	**302**	114
Increase in retained earnings for the year	**16,203**	14,839
Retained earnings at beginning of year	**149,907**	135,068
Retained earnings at end of year (note 4)	**166,110**	149,907

	1976 ($)	1975 ($)
Common Stock Earnings per Share—		
Calculated on daily average of common shares outstanding—13,543,285; 1975—13,513,111 (note 5)		
(a) Before extraordinary item	**2.21**	2.18
(b) After extraordinary item	**2.31**	2.18

CONSOLIDATED BALANCE SHEET
as at December 31, 1976

ASSETS	1976 $000's	1975 $000's
Cash	**57,774**	64,957
Receivables		
Sales financing—wholesale	**275,209**	286,167
—retail	**764,774**	771,584
Dealer loans	**16,452**	17,021
Inventory financing	**12,461**	9,683
Consumer loans	**203,709**	216,450
Residential mortgages	**248,880**	202,247
Commercial loans and mortgages	**63,385**	63,573
Leasing	**710,217**	724,840
Other	**6,674**	3,380
	2,301,761	2,294,945
Allowance for doubtful receivables	**24,057**	23,640
	2,277,704	2,271,305
Marketable Securities—at cost plus accrued interest (quoted value 1976—$19,953,000; 1975—$15,983,000) (note 7)	**20,959**	17,951
Commercial Paper Receivable (note 7)	**16,325**	2,914
Investments in Non-Consolidated Subsidiary and other Companies		
Life assurance subsidiary (note 1 (a))	**8,615**	7,764
Mortgage insurance company (note 1 (a))	**6,402**	4,490
Other companies—at cost	**1,564**	1,608
	16,581	13,862
Other Assets and Deferred Charges		
Cash committed for preferred stock retirement	**—**	438
Income taxes recoverable	**248**	190
Leasehold improvements and prepaid expenses	**2,691**	3,055
Unamortized debt discount and expense	**13,365**	11,715
Premises and equipment—at cost, less accumulated depreciation of $6,234,000 (1975—$5,859,000)	**4,319**	4,460
	20,623	19,858
	2,409,966	2,390,847

Signed on behalf of the Board K.H. MacDonald, Director D.W. Maloney, Director

CONSOLIDATED BALANCE SHEET
as at December 31, 1976

LIABILITIES	1976 $000's	1975 $000's
Secured Demand Bank Loans	**17,500**	28,122
Secured Short-Term Notes	**603,662**	677,742
Secured Term Notes (Schedule A and notes 1 (d) and 9)	**761,993**	670,183
Debentures (Schedule B and note 9)	**122,176**	126,897
Subordinated Debentures (Schedule C and notes 9 and 12)	**35,158**	35,355
Unsecured Term Notes (notes 1 (d) and 8)	**5,458**	1,904
	1,545,947	1,540,203
Payables		
Accounts payable and accrued liabilities	**85,307**	79,004
Income taxes	**1,885**	3,337
Dealer credit balances	**14,810**	16,613
	102,002	98,954
Unearned Income (note 10)	**375,588**	406,005
Unrealized Foreign Exchange Gain (note 1 (d))	**3,624**	1,728
Deferred Income Taxes (note 11)	**149,044**	125,135
	2,176,205	2,172,025

SHAREHOLDERS' EQUITY

Capital Stock (Schedule D)		
Preferred shares	**16,623**	17,918
Common shares (note 12)	**51,028**	50,997
	67,651	68,915
Retained Earnings (note 4)	**166,110**	149,907
	233,761	218,822
	2,409,966	2,390,847

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Sources of Funds		
Operations—		
Earnings	**30,920**	30,450
Amortization of debt discount and expense	**2,263**	1,322
Amortization and depreciation of fixed assets	**1,751**	1,708
Provision for deferred income taxes	**23,434**	23,143
Contribution to earnings of unconsolidated subsidiary and mortgage insurance company	**(1,363)**	(1,142)
	57,005	55,481
Borrowings—		
Short-term debt—issues, less redemptions	**(86,093)**	79,377
Other term debt—		
Proceeds from new borrowings	**238,442**	117,293
Redemptions	**149,914**	68,063
	88,528	49,230
	2,435	128,607
Funds received on sale of a subsidiary	**10,447**	—
Less: Cost of assets sold	**(8,625)**	—
	1,822	—
	61,262	184,088
Uses of Funds		
Increase (decrease) in operating assets—		
Receivables—		
Sales financing, dealer loans and inventory financing	**(15,559)**	(31,311)
Consumer loans	**(12,741)**	(167)
Residential mortgages	**46,633**	26,628
Commercial loans and mortgages	**(188)**	13,094
Leasing	**(14,623)**	226,139
	3,522	234,383
Less: Increase in allowance for doubtful receivables	**417**	2,984
Increase (decrease) in unearned income	**(30,417)**	91,238
	33,522	140,161
Investment in marketable securities and commercial paper	**16,419**	1,069
	49,941	141,230
Capital stock—		
Preferred shares—cost of redemptions	**993**	363
Common shares—proceeds of issues	**(31)**	(815)
	962	(452)
Investment in mortgage insurance and other companies	**1,356**	134
Dividends paid on preferred and common shares	**16,366**	15,725
Other—		
Net decrease (increase) in payables	**(4,415)**	8,259
Net increase (decrease) in other assets including other receivables	**4,235**	651
	18,504	24,317
	68,445	165,547
Increase (decrease) in cash	**(7,183)**	18,541
	61,262	184,088

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1976

1. Significant Accounting Policies

(a) Principles of consolidation

The statements consolidate the accounts of the company and its subsidiaries with the exception of those of The Sovereign Life Assurance Company of Canada. The accounting practices of this subsidiary are in accordance with the requirements of the insurance laws of Canada and therefore consolidation of its accounts is considered to be inappropriate. The investment in its shares is stated at cost plus the parent company's portion of increase in unassigned surplus of the subsidiary since acquisition.

The company's 40% investment in shares of The Sovereign Mortgage Insurance Company has been accounted for on the equity method.

(b) Recognition of revenue

Precomputed charges on sales financing retail receivables for terms for less than forty-eight months and on consumer loan receivables are taken into income using the sum-of-the-digits method on an account by account basis. Because this method does not maintain the original yield over longer terms, on sales financing retail contracts written for terms in excess of forty-eight months, unearned income is taken into earnings on the actuarial yield basis.

Discount on residential mortgages purchased is brought into income over the remaining term of the mortgage using the actuarial yield method.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Gains arising from residual values of leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

Casualty insurance premiums written, less an amount representing estimated acquisition expenses, are deferred and then taken into income evenly over the term of the related policies.

(c) Allowance for doubtful receivables

For IAC sales financing, dealer loans, commercial loans and leasing, such allowance is established by evaluating individual accounts. For consumer loans, sales financing by Niagara Finance Company Limited and residential mortgage receivables such allowance is set up as a percentage of total receivables. In all companies, after collection possibilities have been exhausted, any balance remaining on an account is written off.

(d) Translation of foreign currencies

Unhedged assets and liabilities are translated to Canadian funds at current exchange rates. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts. Exchange gains and losses on current assets and liabilities are considered to be realized and are reflected in the statement of earnings for the current fiscal year. Net unrealized exchange gains resulting from the difference between the current exchange rate and the exchange rate at the date the proceeds of unhedged term borrowings were received are deferred and carried in "Unrealized Foreign Exchange Gains" in the balance sheet.

(e) Amortization of debt discount and expense

Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable or exchangeable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(f) Methods of depreciation

Buildings are depreciated on a straight-line basis at the rate of 2.5% per annum. All other physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

Leasehold improvements are amortized in accordance with the regulations of the same Act over the term of the respective leases.

2. Gross Income

	1976 $000's	1975 $000's	Increase (decrease) $000's	%
Sales financing	**131,066**	127,612	3,454	2.7
Consumer loans	**39,242**	41,358	(2,116)	(5.1)
Residential mortgages	**33,451**	27,312	6,139	22.5
Commercial loans and mortgages	**8,004**	6,134	1,870	30.5
Leasing	**47,779**	34,846	12,933	37.1
	259,542	237,262	22,280	9.4
Provision for doubtful receivables	**11,617**	10,628	989	9.3
	247,925	226,634	21,291	9.4
Casualty insurance premiums	**19,311**	14,977	4,334	28.9
Marketable securities and commercial paper	**1,990**	1,539	451	29.3
	269,226	243,150	26,076	10.7

3. Remuneration of Directors and Officers

	1976 $	1975 $
Aggregate remuneration of the IAC Limited directors as directors of:		
IAC Limited	**88,452**	78,285
Niagara Finance Company Limited	**18,150**	15,400
The Sovereign General Insurance Company	**9,500**	8,400
The Sovereign Life Assurance Company of Canada	**12,400**	9,950
	128,502	112,035
Number of directors of IAC Limited	**25**	18
	$	$
Aggregate remuneration of the IAC Limited officers as officers of IAC Limited	**1,513,671**	1,542,500
Aggregate remuneration of the IAC Limited officers as directors of:		
Niagara Finance Company Limited	**10,050**	10,050
The Sovereign General Insurance Company	**3,000**	4,500
The Sovereign Life Assurance Company of Canada	**2,600**	5,200
	15,650	19,750
Number of IAC Limited officers	**26**	24
Number of IAC Limited officers who were also directors	**4**	3

4. Retained Earnings — Statutory Appropriation

As at December 31, 1976 an amount of $8,377,000, equal to the par value of preferred shares purchased for cancellation, had been set aside in the accounts out of retained earnings (1975 — $7,082,000).

5. Fully Diluted Common Stock Earnings per Share

Assuming that all conversion rights outstanding at December 31, 1976 had actually been exercised at the beginning of the year, fully diluted earnings per common share for the year ended December 31, 1976 would have been:

	1976 $	1975 $
(1) Before extraordinary item	**2.10**	2.07
(2) After extraordinary item	**2.20**	2.07

The calculation assumes that earnings applicable to common shares were increased:
(a) by $21,500 representing the elimination of interest, net of income taxes, attributable to the 7% convertible subordinated debentures, and
(b) by $1,163,500 representing the elimination of interest, net of income taxes, attributable to the 9½% convertible subordinated debentures.

6. Maturities of Gross Receivables and Payables

(in millions of dollars)

	1 year	2 years	3 years	4 years	5 years	6-10 years	Over 10 years	Total
Receivables								
Sales financing —								
Wholesale	275.2	—	—	—	—	—	—	275.2
Retail	381.9	230.9	103.4	25.7	10.7	12.1	0.1	764.8
Dealer loans	5.0	3.5	2.4	1.3	2.7	1.3	0.2	16.4
Inventory financing	12.5	—	—	—	—	—	—	12.5
Consumer loans	92.8	68.2	33.3	8.2	1.2	—	—	203.7
Residential mortgages	7.6	9.5	11.8	13.6	11.4	53.2	141.8	248.9
Commercial loans and mortgages	20.4	12.1	9.6	6.8	10.3	3.0	1.2	63.4
Leasing	103.6	99.8	84.9	67.2	55.8	193.7	105.2	710.2
Other receivables	6.7	—	—	—	—	—	—	6.7
	905.7	424.0	245.4	122.8	92.1	263.3	248.5	2,301.8
Payables								
Debt*	715.4	67.9	35.8	79.7	53.3	430.0	163.9	1,546.0
Other	93.5	5.3	2.3	0.5	0.2	0.2	—	102.0
	808.9	73.2	38.1	80.2	53.5	430.2	163.9	1,648.0
Excess of Receivables (Payables)	96.8	350.8	207.3	42.6	38.6	(166.9)	84.6	653.8

*Allocation not adjusted for sinking fund, mandatory redemption and purchase fund requirements. (See note 9).

7. Marketable Securities and Commercial Paper Receivable
Marketable securities include those held by the casualty insurance subsidiary, at cost plus accrued income, amounting to $17,206,000 (1975—$14,196,000) (quoted value 1976—$16,200,000; 1975—$12,228,000).

Commercial paper receivable includes that which is held by the casualty insurance subsidiary at cost plus accrued interest amounting to $6,315,000 (1975—$2,914,000).

8. Unsecured Term Notes

	1976 $000's	1975 $000's
Unsecured notes comprise:		
Parent company—		
8% term note for U.S. $3,879,000 (1975—nil) repayable in equal semi-annual instalments until 1986	**3,913**	—
Niagara Finance Company Limited—		
6% term note for U.S. $1,533,000 (1975—U.S. $1,874,000) repayable in equal semi-annual instalments until 1981	**1,545**	1,904
	5,458	1,904

9. Sinking Fund, Mandatory Redemption and Purchase Fund Requirements
The sinking fund and mandatory redemption requirements for the years ending December 31, 1977 to 1981 are as follows:

	$000's
1977	2,665
1978	5,639
1979	5,650
1980	5,650
1981	6,255

Certain issues have purchase fund requirements which are non-cumulative and under which the IAC companies are required to redeem only debt instruments offered to them subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, are as follows:

(In millions of dollars)
Years ending December 31

1977	$18.0
1978	$15.1
1979	$14.0
1980	$11.4
1981	$10.2
1982-1986	$30.1
after 1986	$29.2

10. Unearned Income

Unearned income comprises:	**1976 $000's**	1975 $000's
Unearned service charges relating to sales financing-retail receivables	**110,005**	116,371
Unearned service charges relating to consumer loans	**32,198**	37,435
Deferred income relating to residential mortgages	**4,266**	4,153
Unearned income relating to leasing receivables	**220,613**	242,382
Unearned casualty insurance premiums	**8,506**	5,664
	375,588	406,005

11. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1976 $000's	1975 $000's
Mortgage receivables	**1,003**	765
Unamortized debt discount and expense	**718**	1,130
Premises and equipment	**184**	195
Unearned casualty insurance premiums	**1,019**	676
Leasing receivables	**146,120**	122,369
	149,044	125,135

12. Common Shares

Common shares are reserved for issue as follows:

(a) Conversion right exercisable until October 31, 1977 at 70 shares (equivalent to $14.285 per share) for each $1,000 of principal of the 1967 7% convertible subordinated debentures	42,000
(b) Conversion right exercisable until July 14, 1979 at 50 shares (equivalent to $20 per share) and thereafter, until July 14, 1984 at 46 shares (equivalent to $21.74 per share) for each $1,000 of principal of the 1974 9½% convertible subordinated debentures	1,194,950
	1,236,950

13. Commitments Under Leases

The companies have leases on office premises used for their business, requiring rental payments as follows:

Years	Approximate annual rental $
1977	2,729,000
1978	2,396,000
1979	2,002,000
1980	1,237,000
1981	709,000

The aggregate rentals for 1982 and thereafter amount to $3,998,000.

14. Contingent Liabilities

IAC and some of its subsidiaries are parties to certain litigation incidental to the kind of business conducted. In the opinion of management, the ultimate liability, if any, will not materially affect the companies' consolidated financial position or results of operations.

15. Conversion to a Chartered Bank

The directors and shareholders of the company have approved the conversion of the company into a chartered bank. A private member's bill, currently before Parliament, must be passed before conversion can commence.

16. Anti-Inflation Act

The company and its subsidiaries are subject to the provisions of the Federal Anti-Inflation Legislation restraining prices, profit margins, compensation and dividends.

It has been publicly stated that the Anti-Inflation Board will deal reasonably with companies holding large proportions of their assets and liabilities in long-term contracts entered into in earlier years.

In the opinion of management it can be demonstrated that any "excess revenues" during the control period to date derived from transactions originated before the inauguration of the Anti-Inflation controls on October 14, 1975.

DETAILS OF SECURED TERM NOTES
as at December 31, 1976

Schedule A

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	**1976 $000's**	1975 $000's
Payable in Canadian funds—							
Parent company	1959	"T"	5¾	April 1, 1979		**6,000**	6,000
	1959	"V"	6½	December 1, 1979		**5,000**	5,000
	1960	"W"	6	August 15, 1980		**7,500**	7,500
	1961	"X"	5¾	November 15, 1981		**8,500**	8,500
	1962	"Y"	5.40	July 2, 1982		**10,000**	10,000
	1964	"28"	5¾	September 15, 1984		**15,000**	15,000
	1965	"31"	5¾	March 1, 1985		**12,500**	12,500
	1965	"33"	6	December 1, 1985		**5,000**	5,000
	1966	"34"	6½	February 1, 1986		**6,000**	6,000
	1969	"37"*	8¼	May 1, 1979		**200**	200
	1969	"37"*	8¾	May 1, 1989		**1,200**	1,200
	1972	"39"*	8¾	September 1, 1991		**28,625**	30,368
	1976	—	9½	May 15, 1981		**25,000**	—
	1976	— *	10¼	July 30, 1983		**100,000**	—
						230,525	107,268
Niagara Finance Company Limited	1964	"1"	5¾	April 15, 1984		**10,000**	10,000
	1964	"2"	5¾	May 1, 1985		**10,000**	10,000
	1965	"3"	5¾	May 1, 1985		**10,000**	10,000
	1966	"4"	7½	December 1, 1986		**5,000**	5,000
	1968	"5"	8¼	May 1, 1988		**7,500**	7,500
						42,500	42,500
Niagara Realty of Canada Limited	1970	"A"*	9¾	December 15, 1990		**4,610**	4,710
	1971	"B"*	7⅞	December 15, 1986		**18,516**	19,156
	1972	"C"*	8¼	August 15, 1982		**13,465**	13,541
	1973	"D"*	7⅞	May 15, 1988		**18,801**	19,331
	1974	"E"*	9	March 1, 1994		**23,460**	23,994
	1974	"F"*	10¼	June 18, 1981		**9,834**	9,834
	1974	"F"**	10⅜	December 18, 1984		**13,494**	13,649
						102,180	104,215
Payable in U.S. funds (note 1 (d))—							
Parent company	1957	"S"	5½	February 15, 1977	15,870	**15,870**	16,121
	1962	"Z"	5¼	October 1, 1982	10,000	**10,088**	10,158
	1963	"27"	5¼	April 1, 1988	10,000	**10,088**	10,158
	1964	"29"	5	October 1, 1984	10,000	**10,088**	10,158
	1965	"30"	5	February 15, 1985	15,000	**15,132**	15,237
	1965	"32"	5½	October 1, 1987	20,000	**20,176**	20,316
	1966	"35"	5¾	February 1, 1986	12,825	**12,938**	13,027
	1968	"36"*	7¾	October 15, 1986	11,300	**11,398**	12,240
	1969	"38"*	9½	June 1, 1990	13,050	**13,165**	13,256
	1974	"40"*	9¼	May 15, 1994	43,000	**43,378**	43,680
	1976	"41"#	9½	March 15, 1983	50,000	**50,440**	—
					211,045	**212,761**	164,351
Niagara Finance Company Limited	1975	"6"**	10½	September 1, 1990	28,500	**28,745**	30,474

Holders of "37" notes due in 1979 have an option to exchange these notes at maturity for either 8½% 1984 notes or 8¾% 1989 notes.

Holders of "38" notes have the right to prepayment on June 1, 1980 or 1985.

Holders of "A" notes have the right to prepayment on December 15, 1980 or 1985.

Holders of "B" notes have the right to prepayment on December 15, 1978.

Holders of "D" notes have the right to prepayment on May 15, 1980.

Holders of "E" notes have the right to prepayment on March 1, 1980.

The parent company has guaranteed secured notes of Niagara Realty of Canada Limited as to principal, interest and redemption premiums, if any.

*These notes have purchase fund provisions (note 9).

**These notes have a sinking fund provision (note 9).

#These notes have mandatory redemption provision (note 9).

DETAILS OF SECURED TERM NOTES
as at December 31, 1976

Schedule A (Continued)

	Year of maturity	Par value U.S. $000's	**1976 $000's**	1975 $000's
Notes issued at rates of interest varying from 6.875% to 10.25%				
Payable in Canadian funds—				
Parent company	1976		**—**	62,738
	1977		**50,508**	53,008
	1978		**43,505**	12,505
	1979		**290**	290
	1980		**2,515**	2,515
			96,818	131,056
Niagara Finance Company Limited	1976		**—**	11,314
	1977		**880**	880
	1978		**172**	172
	1979		**15**	15
	1980		**20**	20
			1,087	12,401
Payable in U.S. funds (note 1 (d))—				
Parent company	1976	—	**—**	6,839
	1977	5,800	**5,816**	3,834
	1978	1,800	**1,815**	27,224
	1979	1,800	**1,815**	1,828
	1980	1,800	**1,815**	1,828
	1981	1,800	**1,815**	1,828
	1982	20,000	**20,178**	20,316
	1983	10,000	**10,088**	10,158
		43,000	**43,342**	73,855
Niagara Finance Company Limited	1982	1,000	**1,009**	1,016
	1983	1,000	**1,009**	1,016
	1984	1,000	**1,009**	1,016
	1985	1,000	**1,008**	1,015
		4,000	**4,035**	4,063
			761,993	670,183

The following secured notes payable in U.S. funds have been converted to Canadian funds at exchange rates established under forward exchange contracts:

	Par value U.S. $000's
Parent company	
"S" notes	15,870
"36" notes purchase fund requirements	750
Notes issued at various interest rates: maturing in 1977	5,800
Niagara Finance Company Limited	
"6" notes sinking fund requirements	1,500

All other notes payable in U.S. funds have been converted at current exchange rates (note 1 (d)).

DETAILS OF DEBENTURES
as at December 31, 1976

Schedule B

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1976 $000's**	Outstanding 1975 $000's
Payable in Canadian funds—						
Parent company	1957	5¾ **	January 15, 1977 .	12,000	**5,324**	5,700
	1957	6 **	September 1, 1977	5,000	**3,050**	3,123
	1958	5½ **	February 1, 1978 .	6,000	**3,127**	3,251
	1959	6 **	June 15, 1979 ...	10,000	**6,686**	7,101
	1960	6¾ **	February 1, 1980 .	10,000	**7,000**	7,344
	1961	5¾ **	July 2, 1981	10,000	**7,558**	7,805
	1962	5¾ **	February 15, 1982	10,000	**7,102**	7,272
	1965	6½ *	December 15, 1983	10,000	**6,654**	6,925
	1966	7½ *	December 15, 1986	10,000	**6,689**	6,775
	1970	9½ #	October 15, 1992 .	15,000	**11,793**	12,999
	1975	9¾ ##	March 25, 1995 ..	30,000	**29,785**	29,785
					94,768	98,080
Niagara Finance Company Limited	1972	8 ###	April 17, 1977 ...	15,000	**11,978**	—
	1972	8 ###	April 17, 1992 ...		**430**	13,817
	1974	11½ ####	October 15, 1994 .	15,000	**15,000**	15,000
					27,408	28,817
					122,176	126,897

*Sinking fund debentures (note 9).
**These debentures have purchase fund provisions (note 9).
#These debentures have purchase fund provisions until October 15, 1982 and sinking fund provisions thereafter. Holders have the right to prepayment on October 15, 1982 (note 9).
##These debentures have purchase fund provisions until March 25, 1983 and sinking fund provisions thereafter. Holders have the right to prepayment on March 25, 1983 (note 9).
###These debentures have purchase fund provisions and the holders have the right to prepayment on April 17, 1977. The option for prepayment expired on October 17, 1976 and holders of $11,978,000 elected to exercise their right (note 9).
####These debentures have purchase fund provisions and the holders have the right to prepayment on October 15, 1979, 1984 and 1989 (note 9).

DETAILS OF SUBORDINATED DEBENTURES
as at December 31, 1976

Schedule C

	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	**Outstanding 1976 $000's**	Outstanding 1975 $000's
Payable in Canadian funds—						
Parent company	1966	6¾ *	August 15, 1984 .	15,000	**10,659**	10,825
	1967	7 **#	November 1, 1985	10,000	**600**	630
	1974	9½ **##	July 15, 1994	24,000	**23,899**	23,900
					35,158	35,355

*Sinking fund debentures (note 9).
**Convertible debentures (note 12).
#These debentures have purchase fund provisions until October 31, 1977 and sinking fund provisions thereafter (note 9).
##These debentures have purchase fund provisions (note 9).

DETAILS OF CAPITAL STOCK
as at December 31, 1976

Schedule D

	1976 Shares	1976 Amount $000's	1975 Shares	1975 Amount $000's
Preferred Shares				
Authorized and issued—4½% cumulative shares of $100 each redeemable at $101	**100,000**	**10,000**	100,000	10,000
Purchased for cancellation	**61,824**	**6,182**	52,736	5,274
	38,176	**3,818**	47,264	4,726
5¾% cumulative shares of $25 each redeemable at $26.50 to May 15, 1977; $26.25 to May 15, 1981 and $25.25 thereafter	**600,000**	**15,000**	600,000	15,000
Purchased for cancellation	**87,793**	**2,195**	72,333	1,808
	512,207	**12,805**	527,667	13,192
		16,623		17,918
Common Shares				
Authorized without nominal or par value (note 12)	**20,000,000**		20,000,000	
Issued and fully paid				
Beginning of year	**13,541,883**	**50,997**	13,487,698	50,182
Issued during the year				
On conversion of 1967 7% convertible subordinated debentures	**2,100**	**30**	13,790	197
On conversion of 1974 9½% convertible subordinated debentures	**50**	**1**	—	—
For cash—				
Exercise of options granted under the personnel stock purchase plan and the stock option plan	**—**	**—**	40,395	618
	2,150	**31**	54,185	815
End of year	**13,544,033**	**51,028**	13,541,883	50,997

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of IAC Limited and subsidiaries as at December 31, 1976 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Toronto, February 11, 1977

Coopers & Lybrand
Chartered Accountants

Accounting Policies
Accounting policies relating to principles of consolidation, recognition of revenue, allowance for doubtful receivables, translation of foreign currencies, amortization of debt discount and expenses and methods of depreciation are presented in note 1 of the notes to the consolidated financial statements, page 15. The accounting practices of the non-consolidated wholly owned life insurance subsidiary are in accordance with the requirements of the insurance laws of Canada.

Branch Start-Up Expenses
Start-up expenses of new branches are charged to current earnings as and when incurred.

Delinquencies
Delinquent accounts are those on which the lesser of $25 or half of an instalment is past due one month or more.

Renewed accounts are analysed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. "Renewal" is a new contract entered into before the expiry of the old for the purpose of reducing the amount of the instalments originally agreed to by the customer. An "extension" means the postponement of all or a part of a current instalment.

The prerequisites for granting renewals or extensions are strictly determined and renewed or extended accounts are carefully controlled. Partial payments, no matter how recent, will not remove an account from delinquent status. The Supplement to this Annual Report contains detailed information.

Intercompany Borrowing
IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

Pension Funds
IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees aged 27 and over with more than one year of service, except those of the life assurance company. The pension plan is based on the highest average remuneration received over a period of five consecutive years prior to retirement to equal a "final earnings" plan. The company's contribution for 1976 amounted to $1,267,000 (1975: $1,217,000). In addition the company contributed $350,000 (1975: $315,000) to various government pension plans.

The Sovereign Life Assurance Company of Canada has its own pension plan based on retirement at age 65 for employees in service at December 31, 1970 and at age 62 for staff engaged thereafter.

TEN YEAR OPERATING AND STATISTICAL SUMMARY*

	1976		1975		1974	
Assets and Liabilities ($000's)						
Total assets	**2,409,966**		2,390,847		2,139,457	
Total receivables	**2,301,761**		2,294,945		2,061,035	
Details:						
Sales financing—wholesale	**275,209**		286,167		287,228	
—retail	**764,774**		771,584		798,840	
Consumer loans	**203,709**		216,450		216,617	
Residential mortgages	**248,880**		202,247		175,619	
Commercial loans and mortgages	**63,385**		63,573		50,479	
Leasing	**710,217**		724,840		498,701	
Other receivables	**35,587**		30,084		33,551	
Total debt	**1,545,947**		1,540,203		1,407,572	
Total equity	**233,761**		218,822		203,645	
Debt to equity ratio: times	**6.61**		7.04		6.91	
Operating Highlights ($000's) (% of gross income)						
Gross income	**269,226**		243,150		221,750	
Cost of borrowed money	**135,265**	**50.2**	114,265	47.0	115,847	52.2
General expenses	**62,231**	**23.1**	59,134	24.3	51,359	23.1
Earnings	**32,267**	**12.0**	30,450	12.5	23,336	10.5
Preferred dividends	**926**	**.4**	988	.4	996	.4
Earnings applicable to common shares	**31,341**	**11.6**	29,462	12.1	22,340	10.1
Average cost of borrowed money %	**8.9**		8.3		9.0	
Common Stock Facts						
Earnings per share outstanding—daily average	**$2.31**		$2.18		$1.69	
Per cent return on average equity	**15.0**		15.2		12.6	
Dividends paid per share	**$1.14**		$1.09		$ .98	
Income and other taxes per share	**$2.31**		$2.31		$1.86	
Number of shareholders	**11,307**		11,435		11,853	
Number of shares outstanding						
—year end	**13,544,033**		13,541,883		13,487,698	
—daily average	**13,543,285**		13,513,111		13,204,861	
—owned in Canada—year end %	**96.5**		96.3		96.3	
Book value per share	**$16.03**		$14.84		$13.73	

*The above summary excludes data for The Sovereign Life Assurance Company of Canada. Figures prior to 1969 reflect the two-for-one subdivision of common shares in May 1969.

1973	1972	1971	1970	1969	1968	1967
1,852,885	1,523,353	1,298,134	1,232,688	1,188,228	1,090,326	972,744
1,775,134	1,451,213	1,202,435	1,138,981	1,111,494	1,014,893	893,876
235,392	215,289	177,130	137,116	138,770	157,468	113,968
725,232	606,912	516,973	533,823	566,407	510,800	458,482
197,479	173,487	159,102	155,565	152,675	149,025	148,525
127,589	94,148	75,992	62,631	52,044	42,000	36,535
33,669	31,346	39,501	56,107	66,829	80,527	90,677
427,499	307,813	212,812	173,089	113,567	53,705	23,622
28,274	22,218	20,925	20,650	21,202	21,368	22,067
1,203,673	974,080	850,844	841,506	843,284	795,448	720,252
188,437	179,520	160,882	150,628	143,431	138,305	132,650
6.39	5.43	5.29	5.59	5.88	5.75	5.43
171,547	147,635	138,502	143,244	136,327	122,510	109,131
73,280 42.7	55,919 37.9	52,838 38.1	60,693 42.4	56,030 41.1	48,958 40.0	41,577 38.1
46,083 26.9	43,214 29.3	40,740 29.4	40,938 28.6	40,161 29.5	36,761 30.0	34,715 31.8
22,494 13.1	21,994 14.9	19,415 14.0	16,862 11.8	15,484 11.4	14,936 12.2	14,205 13.0
1,019 .6	1,034 .7	1,064 .8	1,079 .8	1,118 .8	1,146 .9	1,167 1.1
21,475 12.5	20,960 14.2	18,351 13.2	15,783 11.0	14,366 10.5	13,790 11.3	13,038 11.9
7.2	6.6	6.7	7.4	7.1	6.7	6.2
$1.65	$1.65	$1.50	$1.30	$1.19	$1.15	$1.09
13.0	13.8	13.5	12.5	12.1	12.1	12.1
$ .96	$ .84	$ .80	$ .72½	$ .70	$ .65	$ .61¼
$1.82	$1.69	$1.66	$1.53	$1.45	$1.33	$1.11½
12,510	12,672	12,802	13,502	13,904	14,081	13,675
13,006,293	12,988,399	12,306,118	12,131,720	12,060,587	11,977,828	11,948,622
12,995,747	12,694,400	12,207,770	12,085,813	11,922,218	11,954,178	11,917,132
95.7	96.2	95.2	94.7	94.1	94.1	93.1
$13.05	$12.35	$11.50	$10.78	$10.17	$9.78	$9.30

Niagara Finance Company Limited is your Company's largest subsidiary. It provides personal cash loans and is also engaged in the leasing of commercial and industrial equipment to major business corporations.

Its operations in 1976 were adversely affected by uncertain economic conditions and unusually high levels of unemployment. As a consequence of this fact and the sale of a small subsidiary in the United Kingdom, total receivables declined by 2.4%.

The overseas subsidiary was sold as it did not fit in with future plans. Its disposal resulted in an extraordinary gain of $1.3 million.

Net write-offs represented 1.98% of related average receivables compared to 1.75% the previous year. Other delinquency ratios improved. All ratios compared favourably to industry averages. However, in recognition of continued uncertainties in the economy, the allowance for doubtful consumer receivables was increased out of income to 3.00% of such receivables as compared to 2.75% in 1975.

Earnings for the year, including the extraordinary gain referred to above, were 8.6% higher than in the previous year.

As the result of the recent introduction of new and improved financing plans and the reorganization of various operating structures, it is anticipated that modest progress will be made in 1977.

Selected Niagara Finance Statistics:	**1976**	1975	1974	1973	1972
Earnings ($ thousands)	**6,364**	5,858	5,508	5,333	5,499
Receivables ($ millions)	**310.2**	317.8	310.3	273.9	198.1

STATEMENT OF EARNINGS
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Gross Income (note 2)	**42,121**	44,579
Expenditure (note 3)		
Cost of borrowed money—Short-term debt	**5,406**	5,687
—Other term debt	**11,667**	10,760
	17,073	16,447
General and administrative	**15,179**	16,579
	32,252	33,026
	9,869	11,553
Provision for Income Taxes		
Current	**580**	1,378
Deferred	**4,272**	4,317
	4,852	5,695
Earnings before Extraordinary Item	**5,017**	5,858
Extraordinary Item (note 12)		
Gain on sale of subsidiary, net of income taxes	**1,347**	—
Earnings	**6,364**	5,858

STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Earnings for the Year	**6,364**	5,858
Dividends		
Class A shares	**1,750**	1,750
Common shares	**1,750**	1,750
	3,500	3,500
Increase in Retained Earnings for the Year	**2,864**	2,358
Retained Earnings—Beginning of Year	**16,261**	13,903
Retained Earnings—End of Year	**19,125**	16,261

BALANCE SHEET
as at December 31, 1976

ASSETS	1976 $000's	1975 $000's
Cash	**2,781**	3,312
Receivables		
Small loans (note 4)	**33,537**	41,484
Other loans	**170,172**	174,966
Sales financing—retail	**22,291**	25,375
Leasing	**83,544**	75,129
Sundry	**703**	848
	310,247	317,802
Allowance for doubtful receivables	**5,711**	5,512
	304,536	312,290
Other Assets and Deferred Charges		
Leasehold improvements and prepaid expenses	**364**	762
Unamortized debt discount and expense	**1,335**	1,217
Office equipment and automobiles—at cost, less accumulated depreciation of $1,323,000 (1975—$1,275,000)	**993**	1,182
	2,692	3,161
	310,009	318,763

LIABILITIES		
Secured Demand Bank Loans	**10,400**	15,622
Secured Short-Term Notes	**36,334**	25,926
Secured Term Notes (note 5)	**76,367**	89,438
Debentures (note 6)	**27,408**	28,817
Unsecured Notes (note 7)	**22,745**	29,904
	173,254	189,707
Payables		
Accounts payable and accrued liabilities	**9,385**	4,612
Income taxes payable	**208**	305
	9,593	4,917
Unearned Income (note 8)	**62,199**	66,973
Unrealized Foreign Exchange Gain	**756**	570
Deferred Income Taxes (note 9)	**20,082**	15,335
	265,884	277,502

SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized—150,000 5¼% non-cumulative, participating Class A shares with a par value of $100 each, redeemable at par; 150,000 common shares without nominal or par value		
Issued and fully paid—125,000 Class A shares	**12,500**	12,500
125,000 common shares	**12,500**	12,500
	25,000	25,000
Retained Earnings	**19,125**	16,261
	44,125	41,261
	310,009	318,763

Signed on behalf of the Board B.F. London, Director J.S. Land, Director

STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1976

	1976 $000's	1975 $000's
Sources of Funds		
Operations—		
Earnings before extraordinary item	**5,017**	5,858
Amortization of debt discount and expense	**210**	217
Amortization and depreciation of fixed assets	**463**	514
Provision for deferred income taxes	**4,272**	4,317
	9,962	10,906
Decrease (increase) in operating assets—		
Receivables—		
Small loans	**7,947**	6,589
Other loans	**4,794**	(6,423)
Sales financing—retail	**3,084**	2,560
Leasing	**(8,415)**	(9,830)
	7,410	(7,104)
Increase in allowance for doubtful receivables	**199**	423
Increase (decrease) in unearned income	**(4,774)**	2,518
	2,835	(4,163)
Funds received on sale of subsidiary	**10,447**	—
Less: Cost of assets sold	**8,625**	—
	1,822	—
Net increase (decrease) in payables	**4,650**	(2,783)
Net decrease (increase) in other assets including sundry receivables	**253**	(210)
	4,903	(2,993)
	19,522	3,750
Uses of Funds		
Borrowings—		
Short-term debt	**(3,100)**	29,314
Other term debt—Proceeds	**—**	(34,925)
—Redemptions	**19,653**	6,893
	16,553	1,282
Dividends	**3,500**	3,500
	20,053	4,782
Decrease in cash	**531**	1,032
	19,522	3,750

NOTES TO FINANCIAL STATEMENTS

for the year ended December 31, 1976

1. Significant Accounting Policies

(a) Statement of earnings

The earnings statement includes the operations of Niagara Financial Services Limited for the five months ended August 25, 1976. (See note 12)

(b) Recognition of revenue

Precomputed charges on 'other' loans and on sales financing retail receivables are taken into income using the sum-of-the-digits method on an account by account basis.

Leasing transactions are reported in accordance with the financing method of accounting. The excess of aggregate rentals over the cost of the leased asset is recorded as unearned income at the time of the transaction. Income is taken up over the term of the lease pro rata to the declining balance of the investment. Gains arising from residual values of the leased assets are reflected in earnings only when realized. Contractual disposal proceeds negotiated at the inception of the lease are included in unearned income and taken up as described above.

(c) Allowance for doubtful receivables

For loans and sales finance receivables such allowance is set up as a percentage of the total of these receivables. After collection possibilities have been exhausted, any balance remaining on an account is written off.

(d) Translation of foreign currencies

Unhedged assets and liabilities are translated to Canadian funds at current exchange rates. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts. Exchange gains and losses on translation of current assets and liabilities are considered to be realized and are reflected in the statement of earnings for the current fiscal year. Net unrealized exchange gains resulting from the difference between the current exchange rate and the exchange rate at the date the proceeds of unhedged term borrowings were received, are deferred and carried in "Unrealized Foreign Exchange Gain" in the balance sheet.

(e) Amortization of debt discount and expense

Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable at the holder's option the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized

charges are written off in the month of redemption.

(f) Methods of depreciation

Physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

Leasehold improvements are amortized in accordance with the same Act over the term of the respective leases.

2. Gross Income

	1976 $000's	1975 $000's
Income from receivables	**47,444**	49,321
Less: Provision for doubtful receivables	**5,323**	4,742
	42,121	44,579

3. Expenditure

General and administrative expenses are shown net of a $5,233,000 (1975—$3,966,000) recovery of expenses from affiliated companies, the affairs of which are largely administered by the company.

A loss on translation of foreign currencies of $735,000 (1975—$831,000) is included in general and administrative expenses.

The aggregate direct remuneration paid or payable to directors and senior officers as defined in The Business Corporations Act of Ontario amounted to $273,000 (1975—$241,000).

4. Small Loans

Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is accrued but not precomputed.

5. Secured Term Notes

	Year of issue	Series	Rate %	Maturity date	1976 $000's	1975 $000's
Payable in Canadian funds—	1964	1	5¾	April 15, 1984	**10,000**	10,000
	1964	2	5¾	May 1, 1985	**10,000**	10,000
	1965	3	5¾	May 1, 1985	**10,000**	10,000
	1966	4	7½	December 1, 1986	**5,000**	5,000
	1968	5	8¼	May 1, 1988	**7,500**	7,500
					42,500	42,500
Payable in U.S. funds (note 1(d))— Series 6 notes have a sinking fund provision.	1975	6	10½	September 1, 1990	**28,745**	30,474
					71,245	72,974

Notes issued at rates of interest varying from 7⅛% to 9⅜%

Payable in Canadian funds— Year of maturity	1976 $000's	1975 $000's
1976	**—**	11,314
1977	**880**	880
1978	**172**	172
1979	**15**	15
1980	**20**	20
	1,087	12,401

Payable in U.S. funds (note 1(d))— All secured notes payable in U.S. funds have been converted to Canadian funds at current exchange rates except for $1.5 million of Series '6' notes (being the sinking fund requirement due September 1, 1977) which has been converted at the rate established under a forward exchange contract.

Year of maturity	Par value U.S. $000's	1976 $000's	1975 $000's
1982	1,000	**1,009**	1,016
1983	1,000	**1,009**	1,016
1984	1,000	**1,009**	1,016
1985	1,000	**1,008**	1,015
	4,000	**4,035**	4,063
		76,367	89,438

6. Debentures

The holders of Series "B" debentures have the right to prepayment on April 17, 1977. The option for prepayment expired October 17, 1976 and holders of $11,978,000 elected to exercise their right.

The holders of Series "C" debentures have the right to prepayment on October 15, 1979, 1984 and 1989.

Series "B" and "C" debentures have purchase fund provisions.

Year of issue	Series	Rate %	Maturity date	1976 $000's	1975 $000's
1972	"B"	8	April 17, 1977	**11,978**	—
1972	"B"	8	April 17, 1992	**430**	13,817
1974	"C"	11½	October 15, 1994	**15,000**	15,000
				27,408	28,817

7. Unsecured Notes — Unsecured notes comprise:

	1976 $000's	1975 $000's
Parent company —		
Demand note	**1,200**	3,000
Term note bearing interest at the monthly average cost of borrowed money to the parent company and maturing October 15, 1977	**20,000**	25,000
6% term note for U.S. $1,533,000 (1975 — $1,874,000) repayable in equal semi-annual instalments until 1981	**1,545**	1,904
	22,745	29,904

8. Unearned Income — Unearned income comprises:

	1976 $000's	1975 $000's
Unearned service charges relating to 'other' loans	**32,198**	37,435
Unearned service charges relating to sales financing — retail receivables	**3,483**	3,948
Unearned income relating to leasing receivables	**26,518**	25,590
	62,199	66,973

9. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income and expenses associated with the following:

	1976 $000's	1975 $000's
Unamortized debt discount and expense	**41**	133
Leasing receivables	**20,041**	15,202
	20,082	15,335

10. Sinking Fund and Purchase Fund Requirements
The sinking fund requirements for the five years ending December 31, 1977 to 1981 are as follows:

$000's

1977	1978	1979	1980	1981
1,508	1,513	1,513	1,513	2,118

Series "B" and "C" debentures have purchase fund requirements which are non-cumulative and under which the company is required to redeem only debt instruments offered to it subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, 1977 and thereafter are as follows: $000's

Year ending December 31,

1977	1978	1979	1980	1981	1982-1986	after 1986
734	613	488	13	13	65	56

11. Anti-Inflation Act
The company is subject to the provisions of the Federal Anti-Inflation legislation restraining prices, profit margins and compensation.

12. Extraordinary Item
On April 1, 1976 the company's net assets in the United Kingdom were sold at their book value of $8,625,346 (£4,563,675) to Niagara Financial Services Limited, a newly incorporated wholly-owned subsidiary in the United Kingdom, in consideration of 2,499,998 ordinary shares of £1 each and a promissory note of that company for £2,063,677 due March 31, 1981 and bearing interest at 8½% per annum.

On August 25, 1976, the company sold all of its shares of the subsidiary. In addition, the subsidiary repaid the promissory note for £2,063,677. The sale resulted in a net gain of $1,347,000 after deducting income taxes attributable thereto of $475,000.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1976 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 31, 1977

Coopers & Lybrand
Chartered Accountants

Board of Directors

Robert E. Campbell
Toronto, Ont.
Senior Vice-President and Senior General Manager, IAC

Roland Chagnon, C.A.
Montreal, Que.
Chairman of the Board, Lallemand Inc.

Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

Joseph S. Land
Toronto, Ont.
Vice-Chairman of the Board, IAC

Byron F. London
Toronto, Ont.
President

Keith H. MacDonald
Toronto, Ont.
Chairman of the Board, IAC

Lawrence M. Machum, Q.C.
Saint John, N.B.
Partner, McKelvey, Macaulay, Machum and Fairweather

Douglas W. Maloney
Toronto, Ont.
President, IAC

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President, IAC

William Moodie
Montreal, Que.
President, Canadian Pacific Investments Ltd.

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, Director and former Chairman of the Board, IAC

L. Ronald Woodall
Toronto, Ont.
Executive Vice-President and General Manager

These subsidiaries provide first and second mortgage loans, primarily on residential property. In addition, existing mortgages are purchased on both an individual and portfolio basis.

Good growth was maintained during the year. Mortgage loans outstanding, which have tripled during the last five years, increased by $46.6 million or 23.1% to $248.9 million.

Increased income produced by the higher asset base, despite some increase in expenditure, resulted in earnings of $4.0 million, 19.4% higher than in 1975.

Statistics relating to delinquency and losses attest to the sound condition of the portfolio. In 1976 net losses were 0.10% of average receivables.

It is anticipated that results in 1977 will continue to be favourable.

Selected Niagara Realty Statistics:	**1976**	1975	1974	1973	1972
Earnings ($ thousands)	**4,046**	3,388	2,202	1,679	1,671
Mortgage receivables ($ millions)	**248.9**	202.2	175.6	127.6	94.1
Average mortgage balance at year end (dollars)	**10,590**	8,962	7,963	6,339	5,269

CONSOLIDATED STATEMENT OF EARNINGS
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Gross Income (note 2)	**32,892**	26,984
Expenditure		
Cost of borrowed money—Short-term debt	**8,711**	4,621
—Other term debt	**9,416**	10,205
	18,127	14,826
General and administrative (note 3)	**6,806**	5,362
	24,933	20,188
	7,959	6,796
Provision for Income Taxes		
Current	**4,175**	4,258
Deferred	**(262)**	(850)
	3,913	3,408
Earnings	**4,046**	3,388

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Earnings for the Year	**4,046**	3,388
Dividends	**2,400**	2,000
Increase in Retained Earnings for the Year	**1,646**	1,388
Retained Earnings—Beginning of Year	**5,717**	4,329
Retained Earnings—End of Year	**7,363**	5,717

CONSOLIDATED BALANCE SHEET
as at December 31, 1976

ASSETS	1976 $000's	1975 $000's
Cash	**4,652**	7,158
Cash Committed for Unclosed Loans	**4,613**	3,885
Receivables		
Residential mortgages	**248,880**	202,247
Sundry	**225**	111
	249,105	202,358
Allowance for doubtful receivables	**1,868**	1,517
	247,237	200,841
Other Assets		
Prepaid expenses	**18**	14
Unamortized debt discount and expense	**1,355**	1,738
Office equipment and automobiles—at cost, less accumulated depreciation of $28,000 (1975—$41,000)	**21**	26
	1,394	1,778
	257,896	213,662

LIABILITIES		
Demand Note Payable—parent company	**128,675**	83,030
Secured Term Notes (note 4)	**102,180**	104,215
Payables		
Accounts payable and accrued liabilities	**3,557**	3,133
Income taxes	**1,423**	2,728
	4,980	5,861
Deferred Income	**4,257**	4,136
Deferred Income Taxes (note 5)	**441**	703
	240,533	197,945

SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized—		
2,000,000 8% non-cumulative, redeemable preferred shares of $5 par value		
2,000,000 common shares of $5 par value		
Issued and fully paid—		
2,000,000 common shares	**10,000**	10,000
Retained Earnings	**7,363**	5,717
	17,363	15,717
	257,896	213,662

Signed on behalf of the Board B. F. London, Director J. S. Land, Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
for the year ended December 31, 1976

	1976 $000's	1975 $000's
Sources of Funds		
Operations—		
Earnings	**4,046**	3,388
Amortization of debt discount and expense	**383**	412
Depreciation	**9**	10
Provision for deferred income taxes	**(262)**	(850)
	4,176	2,960
Borrowings—		
Demand note payable—parent company	**45,645**	34,117
Secured term notes	**(2,035)**	(8,590)
	43,610	25,527
	47,786	28,487
Uses of Funds		
Increases in operating assets		
Residential mortgages	**46,633**	26,628
Less: Increase in allowance for doubtful receivables	**351**	199
Increase in deferred income	**121**	758
	46,161	25,671
Dividends	**2,400**	2,000
Net decrease (increase) in payables	**881**	(2,180)
Net increase (decrease) in other assets including sundry receivables	**122**	(387)
	49,564	25,104
Increase (decrease) in cash	**(2,506)**	2,751
Increase in cash committed for unclosed loans	**728**	632
	47,786	28,487

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1976

1. Significant Accounting Policies

(a) Principles of consolidation
The financial statements include the accounts of the company and its subsidiary, Niagara Realty Limited.

(b) Allowance for doubtful receivables
For residential mortgages such allowance is set up as a percentage of total residential mortgage receivables.

(c) Amortization of debt discount and expense
Debt discount and expense is amortized over the term of the related debt instrument. If the debt is prepayable at the holder's option, the amortization is calculated to the first optional maturity date. When a debt obligation is redeemed prior to maturity, the related unamortized charges are written off in the month of redemption.

(d) Depreciation
Physical assets are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance.

(e) Deferred income
Deferred income arises from mortgages purchased at a discount and is taken into income over the remaining term of the mortgage on the actuarial yield method.

2. Gross Income

	1976 $000's	1975 $000's
Earned income on mortgages	**33,451**	27,312
Less: Provision for doubtful receivables	**559**	328
	32,892	26,984

3. General and Administrative Expenses

General and administrative expenses include:	**1976**	1975
Depreciation of office equipment and automobiles	**$ 9,000**	$10,000
Remuneration of directors and officers—		
Aggregate remuneration of directors as directors	**NIL**	NIL
Number of directors	**7**	7
Aggregate remuneration of officers as officers	**$30,000**	$27,000
Number of officers	**8**	9
Number of officers who are also directors	**3**	4

The affairs of the companies are largely administered by Niagara Finance Company Limited.

4. Secured Term Notes

Year of issue	Series	Rate %	Maturity date	**1976 $000's**	1975 $000's
1970	"A"	9¾ *	December 15, 1990	**4,610**	4,710
1971	"B"	7⅞ **	December 15, 1986	**18,516**	19,156
1972	"C"	8¼	August 15, 1982	**13,465**	13,541
1973	"D"	7⅞ ***	May 15, 1988	**18,801**	19,331
1974	"E"	9 ****	March 1, 1994	**23,460**	23,994
1974	"F"	10¼	June 18, 1981	**9,834**	9,834
1974	"F"	10⅜	December 18, 1984	**13,494**	13,649
				102,180	104,215

*Holders have the right to prepayment on December 15, 1980 and 1985.

**Holders have the right to prepayment on December 15, 1978.

***Holders have the right to prepayment on May 15, 1980.

****Holders have the right to prepayment on March 1, 1980.

Series "A", "B", "C", "D", and "E" notes and series "F" notes maturing in 1981, have purchase fund provisions.

Series "F" notes maturing in 1984 have a sinking fund provision.

IAC Limited has guaranteed all Series notes as to principal, interest and redemption premiums, if any.

5. Deferred Income Taxes
Deferred income taxes arise from timing differences relating to the treatment for income tax purposes of income or expenses associated with the following balance sheet items:

	1976 **$000's**	1975 $000's
Residential mortgages	**935**	765
Unamortized debt discount and expense	**(494)**	(62)
	441	703

6. Sinking Fund and Purchase Fund Requirements
The sinking fund requirements for the five years ending December 31, 1977 to 1981 are as follows:

	$000's
1977	744
1978	750
1979	750
1980	750
1981	750

Certain issues have purchase fund requirements which are non-cumulative and under which the company is required to redeem only debt instruments offered to it subject to limitations as to price and aggregate annual amounts. It is not possible to predict the amounts that will be offered by holders. The maximum purchase fund requirements for the years ending December 31, 1977 and thereafter are as follows:

Years ending December 31	$000's
1977	3,228
1978	2,866
1979	2,291
1980	1,272
1981	312

7. Anti-Inflation Act
The company and its subsidiary are subject to the provisions of the Federal Anti-Inflation Legislation restraining prices, profit margins and compensation. It has been publicly stated that the Anti-Inflation Board will deal reasonably with companies holding large proportions of their assets and liabilities in long-term contracts entered into in earlier years. In the opinion of management, it can be demonstrated that any "excess revenue" during the control period to date derived from transactions originated before the inauguration of the Anti-Inflation controls on October 14, 1975.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Niagara Realty of Canada Limited and subsidiary as at December 31, 1976 and the consolidated statements of earnings, retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 31, 1977

Coopers & Lybrand
Chartered Accountants

The encouraging progress achieved in 1975 was maintained in 1976. Premium writings increased to $22.6 million (1975: $15.4 million). During the year appropriate rate adjustments were made in most lines.

Claim loss ratios decreased from 74.3% of earned premiums in 1975 to 67.5%, with significant improvement occurring in automobile and commercial property experience.

The increase in general expense of 43.1% was largely related to the increase of 46.9% in premiums written.

The combination of a modest underwriting gain and income from investments resulted in earnings, after provision for income taxes, of $893,000 as compared to $460,000 the previous year.

Well positioned to respond vigorously and creatively to the needs of present and future policyholders throughout Canada, your Company confidently looks forward to the future.

Selected Sovereign General Insurance Company Statistics: (Thousands of Canadian Dollars)	**1976**	1975	1974	1973	1972
Premiums earned	**19,311**	14,978	12,050	10,949	9,750
Claims incurred	**13,032**	11,125	9,016	8,278	6,739
Expenses	**6,236**	4,358	3,944	3,244	3,288
Underwriting gain (loss)	**43**	(505)	(910)	(573)	(277)
Investment and other income	**1,574**	1,080	1,053	933	725
Income taxes	**724**	115	86	62	28
Earnings	**893**	460	57	298	421

STATEMENT OF EARNINGS
for the year ended December 31, 1976

		1976 ($)		1975 ($)	1976 (%)	1975 (%)
Premiums						
Net premiums written		**22,589,375**		15,378,542		
Less: Reinsurance premiums		**436,704**		246,268		
Net premiums retained		**22,152,671**		15,132,274		
Change in unearned premium reserve		**(2,841,768)**		(154,285)		
Premiums Earned		**19,310,903**		14,977,989	**100.00**	100.00
Expenses						
Claims incurred	**12,289,608**		10,475,984			
Staff adjusting expenses	**742,509**	**13,032,117**	649,461	11,125,445	**67.49**	74.28
		6,278,786		3,852,544	**32.51**	25.72
Commissions	**2,640,181**		1,476,163			
General and administrative	**2,945,254**		2,474,102			
Taxes and licences	**650,429**	**6,235,864**	407,684	4,357,949	**32.29**	29.10
Underwriting Gain (loss)		**42,922**		(505,405)	**0.22**	(3.38)
Other Income						
Income from investments	**1,572,278**		1,125,682			
Gain (loss) on sale of investments	**1,806**	**1,574,084**	(46,120)	1,079,562		
		1,617,006		574,157		
Income Taxes (note 2)						
Current	**380,844**		214,085			
Deferred	**343,214**	**724,058**	53,526	267,611		
Earnings Before Extraordinary Item		**892,948**		306,546		
Extraordinary Item						
Reduction of income taxes on application of prior year's loss		**—**		153,000		
Earnings		**892,948**		459,546		

STATEMENT OF RETAINED EARNINGS
for the year ended December 31, 1976

	1976 ($)	1975 ($)
Net Earnings for the Year	**892,948**	459,546
Retained Earnings—Beginning of Year	**5,527,545**	5,067,999
Retained Earnings—End of Year	**6,420,493**	5,527,545

BALANCE SHEET
as at December 31, 1976

ASSETS	1976 ($)	1975 ($)
Cash	**737,596**	335,587
Short-term investments—at cost, plus accrued income	**6,315,532**	2,913,537
	7,053,128	3,249,124
Reinsurer's deposit in respect of outstanding claims (contra)	**11,673**	12,281
Accounts receivable	**2,236,612**	2,062,572
Income taxes recoverable	**218,293**	—
Prepaid expenses	**20,186**	7,246
Securities—at cost, plus accrued income (quoted value 1976—$16,200,516; 1975—$12,227,679)	**17,205,731**	14,196,182
Mortgages—at cost, plus accrued income	**191,266**	—
Office equipment and automobiles—at cost, less accumulated depreciation of $346,473 (1975—$327,925)	**164,574**	153,253
Leasehold improvements—at cost, less amounts written off	**120,017**	139,556
	27,221,480	19,820,214

LIABILITIES		
Accounts payable and accrued liabilities	**1,014,215**	310,619
Accrued premium taxes	**299,241**	159,718
Income taxes payable	—	93,085
Provision for outstanding claims and adjusting expenses	**8,290,609**	5,716,700
Reinsurer's advance (contra)	**11,673**	12,281
	9,615,738	6,292,403
Unearned premium reserve	**8,506,029**	5,664,260
Deferred income taxes	**1,018,920**	675,706
	19,140,687	12,632,369

SHAREHOLDERS' EQUITY		
Capital stock		
Authorized—10,000 shares of $100 each		
Issued and fully paid—5,830 shares	**583,000**	583,000
Premium on shares issued	**327,300**	327,300
Contributed surplus	**750,000**	750,000
Retained earnings	**6,420,493**	5,527,545
	8,080,793	7,187,845
	27,221,480	19,820,214

Signed on behalf of the Board W.R. Livingston, Director D.J. Wilson, Director

NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 1976

1. Significant Accounting Policies
(a) Premiums written, less an amount representing estimated acquisition expenses, are deferred and then taken into income evenly over the term of the related policies.
(b) Commissions and other acquisition expenses are charged against income as incurred.
(c) Individual loss estimates are provided on each claim reported. In addition, provisions are made for unforeseen deterioration in reported claims and for claims incurred but not reported based on past experience and business in force.
(d) Interest is recorded as income on the accrual basis. Dividends are recorded as income on the ex-dividend date. Gains and losses realized on the disposal of investments are recognized on the date of disposal.
(e) Furniture and automobiles are depreciated at the maximum rates allowed by the regulations of the Canadian Income Tax Act for claiming capital cost allowance. Leasehold improvements are amortized in accordance with the regulations of the same Act over the term of the respective leases.

2. Income Taxes
Depreciation and amortization of approximately $163,000 in excess of amounts claimed for income tax purposes has been recorded in the accounts in 1976 and prior years. This excess is available to reduce taxable income in future years.

3. Anti-Inflation Act
The company is subject to the provisions of the Federal Anti-Inflation legislation.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of The Sovereign General Insurance Company as at December 31, 1976 and the statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 24, 1977

Coopers & Lybrand
Chartered Accountants

New ordinary insurance and annuities issued in 1976 totalled $109,100,000, up 10.5% over the previous year, and this represented the highest level of sales in the Company's history. The annual premium value of new insurance and annuity sales was $1,335,000.

Revenue, consisting of premium and investment earnings including interest, dividends, and rents, amounted to $18,480,000 (1975: $17,002,000). Premium income increased by 7.1% and investment earnings by 11.8%.

In 1976 payments to policyholders and beneficiaries, including the amount set aside to increase actuarial reserves, totalled $12,308,000 (1975: $11,732,000). Policyholder dividends amounted to $909,000 (1975: $904,000).

Operating revenue, after provision for all policyholder payments and other expenditures, increased to $740,000 (1975: $664,000). The combined total of capital, surplus, and reserve accounts was $12,312,000, equal to 13.9% of assets, which provides a substantial margin of protection for all policyholders.

Copies of the Annual Report of The Sovereign Life Assurance Company of Canada are available from the Secretary of Sovereign or IAC.

Selected Sovereign Life Statistics: (Millions of Canadian Dollars)	**1976**	1975	1974	1973	1972	1962*
Insurance in force:						
Ordinary	**581.0**	520.0	462.6	411.2	375.8	216.2
Group	**463.3**	448.7	482.1	483.8	471.7	2.6
Total	**1,044.3**	968.7	944.7	895.0	847.5	218.8
New Business written:						
Ordinary	**109.1**	98.7	84.4	67.2	60.2	13.8
Group (net change)	**14.6**	(33.4)	(1.7)	12.1	70.4	0.7
Policy reserves	**61.3**	58.1	55.2	50.5	48.3	37.2
Total assets	**88.4**	84.0	78.4	72.6	68.4	46.1
Net interest earned: Per cent	**7.91**	7.49	7.28	6.86	6.58	5.21

*Year of acquisition by IAC

STATEMENT OF REVENUE
for the year ended December 31, 1976

	1976 ($)	1975 ($)
Revenue		
Premiums and annuity considerations	**11,958,480**	11,167,490
Interest, dividends and rents, less related expenses of $356,537 (1975—$326,563)	**6,521,506**	5,834,800
	18,479,986	17,002,290
Policyholder Distribution and Expenditures		
Amounts paid to or set aside for policyholders and beneficiaries—		
Death and ordinary disability claims	**2,745,993**	2,653,095
Group disability claims	**1,445,431**	1,535,662
Matured endowments	**837,438**	769,332
Annuity benefits	**284,265**	261,653
Surrender values	**1,644,820**	1,550,128
Increase in reserves for insurance and annuity contracts	**3,219,920**	2,906,945
Interest credited to funds on deposit and pension fund	**604,712**	540,752
	10,782,579	10,217,567
Dividends to participating policyholders (including change in provision)	**909,331**	903,815
Policyholders' investment taxes	**115,000**	116,000
Group experience rating refunds (including change in provision)	**500,768**	494,767
	12,307,678	11,732,149
Operating Expenses	**4,869,655**	3,883,658
	17,177,333	15,615,807
Operating Revenue Before Income Taxes	**1,302,653**	1,386,483
Provision for Income Taxes	**604,000**	737,000
Operating Revenue	**698,653**	649,483
Gain on disposal of securities, less income taxes	**41,597**	14,693
Excess of Revenue for the Year	**740,250**	664,176

STATEMENT OF UNASSIGNED SURPLUS
for the year ended December 31, 1976

	1976 ($)	1975 ($)
Unassigned Surplus—Beginning of Year	**8,764,818**	8,750,642
Excess of revenue for year	**740,250**	664,176
	9,505,068	9,414,818
Allocation to contingency reserve	**—**	650,000
Unassigned Surplus—End of Year (note 2)	**9,505,068**	8,764,818

BALANCE SHEET
as at December 31, 1976

ASSETS	1976 ($)	1975 ($)
Cash	**554,555**	610,748
Short-term investments	**600,000**	600,000
Bonds and debentures, at amortized cost or less (note 1)	**26,907,924**	25,753,258
Common and preferred stocks, at cost or less (note 1)	**4,661,907**	4,408,889
First mortgages on real estate	**48,071,401**	45,462,720
Loans on policies, secured by cash values	**5,226,809**	4,868,482
Real estate—Purchased for income, at cost, less amounts written off—$197,163 (1975—$174,129)	**927,290**	950,325
Premiums in course of collection	**249,567**	304,132
Investment income due and accrued	**1,001,654**	905,833
Other assets	**220,524**	158,253
	88,421,631	84,022,640

LIABILITIES	1976 ($)	1975 ($)
Reserves for insurance and annuity contracts	**61,326,668**	58,106,748
Policyholders' funds on deposit	**6,408,290**	6,191,046
Policy claims in course of settlement and provision for unreported claims of $366,000 (1975—$366,000)	**785,285**	730,278
Mortgagors' tax prepayments	**974,828**	893,462
Premium and income taxes accrued	**864,080**	1,155,411
Other liabilities and accruals	**390,453**	350,805
Provision for dividends to policyholders	**1,988,500**	2,087,900
Provision for experience rating refunds	**510,000**	493,000
Staff and agents' pension and insurance funds	**2,861,284**	2,441,997
	76,109,388	72,450,647

CAPITAL AND SURPLUS	1976 ($)	1975 ($)
Capital stock		
Authorized—10,000 shares of $100 each		
Issued—8,406 shares of $100 each of which 27 shares are fully paid and 8,379 shares are $25 paid	**212,175**	212,175
Investment reserve	**1,000,000**	1,000,000
Contingency reserve	**1,500,000**	1,500,000
Shareholders' surplus	**95,000**	95,000
Unassigned surplus (note 2)	**9,505,068**	8,764,818
	12,312,243	11,571,993
	88,421,631	84,022,640

Signed on behalf of the Board W.R. Livingston, Director J.H. Sutherland, Director

NOTES TO FINANCIAL STATEMENTS
for the year ended December 31, 1976

1. Valuation of Bonds, Debentures and Preferred and Common Stocks

	1976 $	1975 $
Value stated in the balance sheet	**31,569,831**	30,162,147
Estimated market value	**28,721,767**	25,412,855
Maximum value at which these securities may be carried as prescribed by the insurance laws of Canada	**29,508,110**	27,670,703

2. Unassigned Surplus
The shareholders' portion of unassigned surplus amounts to $6,052,293 (1975—$5,202,130) of which $850,163 (1975—$798,307) represents the shareholders' share of the operating revenue for the year.

3. Anti-Inflation Act and Regulations
The company is subject to restraint of prices and compensation under the terms of the Anti-Inflation Act and Regulations of October 14, 1975.

AUDITORS' REPORT TO THE POLICYHOLDERS AND SHAREHOLDERS

We have examined the balance sheet of The Sovereign Life Assurance Company of Canada as at December 31, 1976 and the statements of revenue and unassigned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included verification of the cash and investments in bonds and stocks by certificates from the depositories, and such tests and other procedures as we considered necessary in the circumstances. The reserves and other liabilities under the various assurance and annuity contracts are stated at amounts certified by the company's actuary.

In our opinion, based upon our examination and upon the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations for the year then ended in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

January 25, 1977

Coopers & Lybrand
Chartered Accountants

DIRECTORS AND OFFICERS

Directors

*Keith H. MacDonald
Toronto, Ont.
Chairman of the Board

*Joseph S. Land
Toronto, Ont.
Vice-Chairman of the Board

*Douglas W. Maloney
Toronto, Ont.
President

Stanley F. Melloy
Toronto, Ont.
Executive Vice-President

Peter F. Bronfman
Montreal, Que.
President, Edper Investments Ltd.

Stanley D. Clarke
Montreal, Que.
President, Clarke Transportation Canada Ltd.

Ronald L. Cliff, C.A.
Vancouver, B.C.
Chairman, Inland Natural Gas Company Ltd.

*Harold Corrigan, C.A.
Toronto, Ont.
President, Alcan Canada Products Limited

E. Jacques Courtois, Q.C.
Montreal, Que.
Partner, Weldon, Courtois, Clarkson, Parsons & Tétrault

George L. Crawford, Q.C.
Calgary, Alta.
Associate, McLaws and Company

*Peter Kilburn
Montreal, Que.
Chairman, Greenshields Incorporated

*David Kinnear
Toronto, Ont.
Vice-President and Director, A.E. LePage Limited

Lyndon E. Nichol
Rancho Santa Fe, Calif.
Retired, former Chairman of the Board

**Edmond G. Odette
Toronto, Ont.
President, Eastern Construction Company Limited

L. Edmond Ricard
Montreal, Que.
President, Imperial Tobacco Limited

Struan Robertson
Halifax, N.S.
President & Chief Executive Officer, Maritime Telegraph and Telephone Co. Ltd.

C. Harry Rosier
Toronto, Ont.
President, Abitibi Paper Company Ltd.

Adam H. Zimmerman
Toronto, Ont.
Executive Vice-President, Noranda Mines Limited

*Member of the Executive Committee of the Board as at December 31, 1976
**Elected February 23, 1977

Officers

Chairman of the Board
K.H. MacDonald

Vice-Chairman of the Board
J.S. Land

President
D.W. Maloney

Executive Vice-President
S.F. Melloy

Senior Vice-President and Senior General Manager
R.E. Campbell

Senior Vice-President — Corporate Development
A.P. Bolin

Senior Vice-President — Consumer Services
B.F. London

Senior Vice-President — Business Financing
F.P. Paradis

Senior Vice-President — Mortgages
L.R. Woodall

Vice-Presidents
W.P. Davidson
L.G. Gravel
R. Hémond
S.S. Ilaqua — *Treasurer*
R.K. Jackson
N.V. Keyes
E.W. McCracken
D.A. Rattee
W.S. Smuk
W.J. Van Wyck
K.E. Woodall

Secretary
C.R. Stewart

Comptroller
J.J. Tors

BANKS WITH WHICH LINES OF CREDIT ARE ESTABLISHED

Canada
The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto Dominion Bank
The Bank of Nova Scotia
Bank Canadian National
The Provincial Bank of Canada
The Mercantile Bank of Canada
Bank of British Columbia

U.S.A.
Morgan Guaranty Trust Company of New York
Bank of America
Bankers Trust Company
Chemical Bank
Citibank, NA
Continental Illinois National Bank and Trust Company of Chicago
Crocker National Bank
French American Banking Corporation
Harris Trust and Savings Bank
Irving Trust Company
Manufacturers Hanover Trust Company
Marine Midland Bank—Western
Mellon Bank NA
National Bank of Detroit
National Bank of North America
Schroder Trust Company
Seattle-First National Bank
Security Pacific National Bank
The Bank of New York
The Chase Manhattan Bank NA
The First National Bank of Boston
The First National Bank of Chicago
The Northern Trust Company
United California Bank
Wells Fargo Bank NA

TRANSFER AGENTS

Common Stock
Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver
The Bank of New York
New York

Preferred Stock
The Royal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

REGISTRARS

Common Stock
Canada Permanent Trust Company
Montreal and Toronto
The Royal Trust Company
Winnipeg, Regina, Calgary and Vancouver
The Bank of New York
New York

Preferred Stock $100 Par Value
Montreal Trust Company
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Preferred Stock $25 Par Value
Guaranty Trust Company of Canada
Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

AUDITORS

Coopers & Lybrand
Toronto, Chartered Accountants

STOCK LISTINGS

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange — Common Stock only

Printed in Canada